

ZEAL Network SE

Others - Germany



Buy (old: Buy)

02.04.2024

EUR 51.00 (old: EUR 51.00)

New chapter of growth; added to NuWays AlphaList

ZEAL has opened a **new chapter of growth** stemming from rising monetization in the Lottery business and also the Games business from FY'24e onwards. In sum, we **expect sales growth of 25%** for this year and a **sales CAGR 23-26e of 17%**, here's why:

Elevated lottery sales growth: ZEAL has relied on a more or less constant lottery billings margin (sales in % of billings) over the last years (12-13%), meaning that lottery sales grew more or less proportionate to lottery billings. Billings continue to grow with c. 8-12% p.a. thanks to ZEAL's persistent user intake driven by the online transformation. Now, for the **first time, sales look set to outgrow billings** (see p. 2 for details), as ZEAL takes steps to significantly increase the billings margin, which should lead to gross margin of more than 15% (+2pp) **starting in H2'24e**. In general, we regard ZEAL's sales as recurring, as average lottery expense per user (APPU) grows slightly every year (+ 4% yoy in '23), while ZEAL also benefits from virtually no churn (below 5%).

How does ZEAL improve the lottery billings margin? First of all, by **introducing a new social lottery**, next to *freiheit+*, where ZEAL generates higher margins than in DLTB lottery brokerage (mix effect). Secondly, ZEAL aims to **steer customer behaviour to higher margin lottery products** (e.g., lottery clubs & play-with-friends) by actively placing and promoting the products on the platforms (mix effect). However, we regard the third measure as the most important one, as it can happen overnight: **selective service fees** (planned for H2'24e). As the lottery customers are extremely loyal and hence price insensitive, it allows for ZEAL to charge some players selectively higher services fees than other players (price effect).

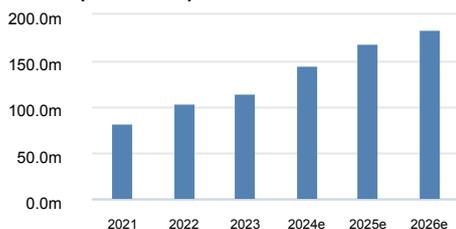
Operating leverage in action: While the billings margin improvements requires **additional marketing expenses and initial set-up costs** for the new social lottery in the short-term, should lead to a flat EBITDA margin of 28% for FY'24e. However, in FY'25e and beyond, we expect the **operating leverage** to kick in an lift **EBITDA margins to substantially by 5pp yoy to 33%**. This also includes the complete Games portfolio roll-out, which is expected to be finished by end of H1'24e, hence also showing its full effect on profitability in FY'25e.

- continued -

Y/E 31.12 (EUR m)	2021	2022	2023	2024e	2025e	2026e
Sales	83.3	105.2	116.0	144.9	168.8	185.5
Sales growth	-4.2%	26.2%	10.3%	24.9%	16.5%	9.9%
EBITDA	27.7	31.7	32.8	40.6	55.7	64.2
Net debt (if net cash=0)	-38.5	-28.5	-29.7	-43.6	-59.7	-79.0
FCF	26.0	27.1	24.9	38.5	42.8	48.3
Net Debt/EBITDA	-1.4	-0.9	-0.9	-1.1	-1.1	-1.2
EPS pro forma	0.48	0.72	0.57	0.81	1.31	1.59
EBITDA margin	33.3%	30.1%	28.3%	28.0%	33.0%	34.6%
ROCE	5.0%	6.0%	7.2%	11.0%	16.9%	20.7%
EV/sales	10.5	6.7	6.2	4.8	4.1	3.6
EV/EBITDA	31.6	22.4	21.7	17.3	12.3	10.4
PER	69.0	46.6	58.1	41.0	25.5	20.9
Adjusted FCF yield	1.8%	3.7%	3.9%	4.2%	6.1%	7.3%

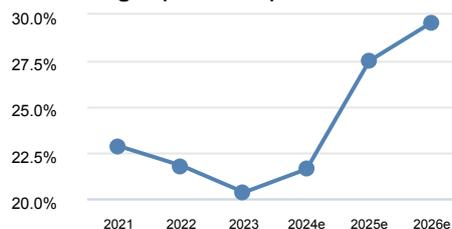
Source: Company data, NuWays, Close price as of 22.03.2024

Sales (2021-26e)



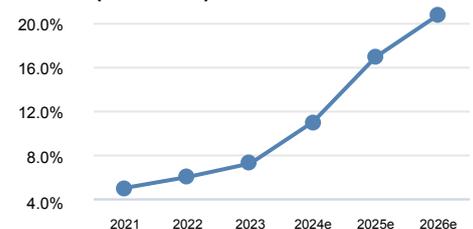
Source: NuWays Research

EBIT margin (2021-26e)



Source: NuWays Research

ROCE (2021-26e)



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 instant win games & charity based lotteries.



Market data

Share price (in €)	31.45
Market cap (in € m)	742.7
Number of shares (in m pcs)	22.3
Enterprise value (in € m)	699.8
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

	2024e	2025e	2026e
Sales	-3%	0%	-4%
EBIT	-3%	0%	-5%
EPS	-3%	0%	-5%

- ### Comment on changes
- FY'24 estimates slightly reduced due to adapted billings margin assumption.
 - For FY'26e, we now assume a slightly lower gross margin expansion.

Guidance

- FY'24 Sales : € 140-150m
- FY'24 EBITDA: € 38-42m
- FY'24 marketing exp.: € 40-45m

ZEAL Network SE

Update - 02.04.2024

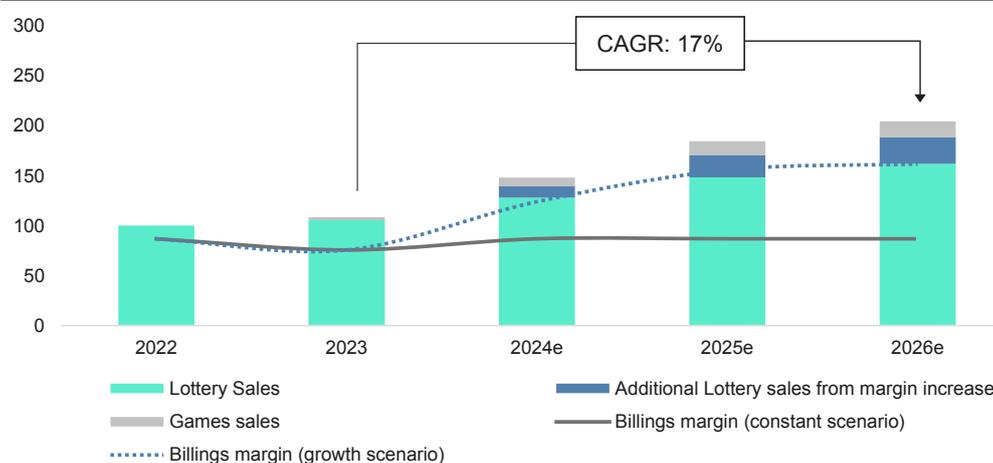
During FY'23, Games contributed with € 1.3m EBITDA (25% margin), but after being completely rolled-out, we expect incremental Games EBITDA margins of 85%, showing the strong earnings potential stemming from Games.

Strong Q1'24 ahead: the first quarter of the year laid out a perfect start with **4x peaking jackpots** (vs. only 3x during all of FY'23e), which should lead to c. **300-400k newly registered users** (i.e., +75-100k of additional MAU, assuming 25% conversion rate) **for ZEAL in Q1'24 alone** vs. 600k during all of FY'23. Additionally, **Q1 Lottery billings** (currently +14% above average) **and sales look set to come in strong** as the high jackpots massively elevate user activity, as the irregular players then also play the lottery and come on top of the regular players.

Unique mix of value and growth at an attractive valuation: In a **no-user-growth and constant-billings-margin-scenario** and assuming only a 10y customer longevity, the CLTV of ZEAL's current Lottery user base (eNuW: € 726m) reflects the current market capitalization of € 745m. However, our **CLTV estimate grows by 25% to € 910m** (see below) if the Lottery billings margin increases to 15%, still factoring in no MAU growth.

This, coupled with the strong outlook ahead, leads us to add ZEAL to our **NuWays' AlphaList** and confirm our **BUY recommendation with unchanged PT of € 51.00**, based on DCF.

Elevated sales growth through rising billings margin and Games contribution



Source: Company data, NuWays

CLTV calculation

		Scenario 1	Scenario 2	% chg.
Cost per Lead (CPL)	€ 45.52			
Customer Retention Rate	25%			
Effective Customer Acquisition Cost (CAC)	€ 182.08			
assumed customer lifetime (years)	10			
Average Billing per User p.a. (ABPU)		€ 736.08	€ 736.08	0.0%
Billings margin		12.5%	15.0%	2.5pp
Average Revenue per User p.a. (ARPU)		€ 92.19	€ 110.41	19.8%
calculatory discount rate of future revenues				2%
Customer Lifetime Value per Customer		€ 633.4	€ 793.8	25.3%
Number of active customers		1,146,000	1,146,000	0.0%
Value of ZEAL's FY'23e customer base (€ m)		725.8	909.7	25.3%

Source: Company data, NuWays

Financials

Profit and loss (EUR m)	2021	2022	2023	2024e	2025e	2026e
Net sales	83.3	105.2	116.0	144.9	168.8	185.5
<i>Sales growth</i>	-4.2%	26.2%	10.3%	24.9%	16.5%	9.9%
Increase/decrease in finished goods and work-in-process	0.0	0.0	0.0	0.0	0.0	0.0
Total sales	83.3	105.2	116.1	144.9	168.8	185.5
Other operating income	4.6	2.3	1.3	1.4	1.5	1.6
Material expenses	0.0	0.0	-0.0	0.0	0.0	0.0
Personnel expenses	19.0	18.9	22.6	24.6	27.9	29.7
Other operating expenses	41.2	57.0	62.0	81.2	86.8	93.3
Total operating expenses	55.6	73.5	83.2	104.3	113.1	121.3
EBITDA	27.7	31.7	32.8	40.6	55.7	64.2
Depreciation	0.7	0.7	0.0	0.0	0.0	0.0
EBITA	27.0	31.0	32.8	40.6	55.7	64.2
Amortisation of goodwill	0.0	0.0	0.0	0.0	0.0	0.0
Amortisation of intangible assets	7.9	8.1	9.3	9.3	9.3	9.3
Impairment charges	0.0	0.0	0.0	0.0	0.0	0.0
EBIT (inc revaluation net)	19.0	22.9	23.6	31.3	46.4	54.9
Interest income	0.2	1.4	0.5	1.2	1.1	1.0
Interest expenses	2.0	0.7	1.8	1.8	1.8	1.8
Investment income	-0.3	-0.2	-0.0	0.0	0.0	0.0
Financial result	-2.4	-0.1	-1.3	-0.6	-0.7	-0.8
Recurring pretax income from continuing operations	16.7	22.8	22.2	30.7	45.7	54.1
Extraordinary income/loss	0.0	0.0	-0.0	0.0	0.0	0.0
Earnings before taxes	16.7	22.8	22.3	30.7	45.7	54.1
Income tax expense	5.3	6.2	8.6	11.4	14.6	16.2
Net income from continuing operations	11.4	16.6	13.7	19.3	31.1	37.9
Income from discontinued operations (net of tax)	0.0	0.0	0.0	0.0	0.0	0.0
Net income	11.4	16.6	13.7	19.3	31.1	37.9
Minority interest	0.6	0.6	0.9	1.2	2.0	2.4
Net profit (reported)	10.8	16.0	12.8	18.1	29.1	35.5
Average number of shares	22.4	22.3	22.3	22.3	22.3	22.3
EPS reported	0.48	0.72	0.57	0.81	1.31	1.59

Profit and loss (common size)	2021	2022	2023	2024e	2025e	2026e
Net sales	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%
<i>Sales growth</i>	-4.2%	26.2%	10.3%	24.9%	16.5%	9.9%
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	5.5%	2.2%	1.1%	1.0%	0.9%	0.9%
Material expenses	0.0%	0.0%	-0.0%	0.0%	0.0%	0.0%
Personnel expenses	22.9%	18.0%	19.4%	17.0%	16.5%	16.0%
Other operating expenses	49.4%	54.1%	53.4%	56.0%	51.4%	50.3%
Total operating expenses	66.7%	69.9%	71.7%	72.0%	67.0%	65.4%
EBITDA	33.3%	30.1%	28.3%	28.0%	33.0%	34.6%
Depreciation	0.9%	0.6%	0.0%	0.0%	0.0%	0.0%
EBITA	32.4%	29.5%	28.3%	28.0%	33.0%	34.6%
Amortisation of goodwill	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
Amortisation of intangible assets	9.5%	7.7%	8.0%	6.4%	5.5%	5.0%
Impairment charges	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
EBIT (inc revaluation net)	22.9%	21.8%	20.3%	21.6%	27.5%	29.6%
Interest income	0.2%	1.4%	0.4%	0.8%	0.7%	0.5%
Interest expenses	2.4%	0.7%	1.5%	1.2%	1.1%	1.0%
Investment income	-0.4%	-0.2%	-0.0%	0.0%	0.0%	0.0%
Financial result	neg.	neg.	neg.	neg.	neg.	neg.
Recurring pretax income from continuing operations	20.0%	21.7%	19.2%	21.2%	27.1%	29.2%
Extraordinary income/loss	0.0%	0.0%	-0.0%	0.0%	0.0%	0.0%
Earnings before taxes	20.0%	21.7%	19.2%	21.2%	27.1%	29.2%
Tax rate	31.5%	27.4%	38.6%	37.0%	32.0%	30.0%
Net income from continuing operations	13.7%	15.7%	11.8%	13.4%	18.4%	20.4%
Income from discontinued operations (net of tax)	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
Net income	13.7%	15.7%	11.8%	13.4%	18.4%	20.4%
Minority interest	0.7%	0.6%	0.8%	0.9%	1.2%	1.3%
Net profit (reported)	12.9%	15.2%	11.0%	12.5%	17.2%	19.1%

Source: Company data, NuWays

Balance sheet (EUR m)	2021	2022	2023	2024e	2025e	2026e
Intangible assets	298.0	289.6	281.7	272.4	263.2	253.9
Property, plant and equipment	0.6	1.2	1.2	1.2	1.2	1.2
Financial assets	16.6	22.5	18.2	18.2	18.2	18.2
FIXED ASSETS	315.2	313.2	301.0	291.8	282.5	273.3
Inventories	0.0	0.0	0.0	0.0	0.0	0.0
Accounts receivable	1.8	1.4	2.6	2.0	2.3	2.5
Other assets and short-term financial assets	82.9	75.4	30.5	30.5	30.5	30.5
Liquid assets	90.1	61.2	57.4	67.3	79.4	94.7
Deferred taxes	11.9	6.9	1.0	1.0	1.0	1.0
Deferred charges and prepaid expenses	1.5	1.5	1.7	1.7	1.7	1.7
CURRENT ASSETS	188.6	146.5	93.6	102.6	115.0	130.5
TOTAL ASSETS	503.8	459.7	394.6	394.3	397.5	403.8

SHAREHOLDERS EQUITY	378.2	328.0	259.2	251.9	254.8	259.1
MINORITY INTEREST	6.7	6.1	5.6	6.8	8.8	11.2
Provisions for pensions and similar obligations	0.4	0.1	0.7	0.7	0.7	0.7
Other provisions and accrued liabilities	4.0	4.0	4.2	7.0	8.1	8.9
Short-term liabilities to banks	1.1	4.7	7.2	7.2	7.2	7.2
Accounts payable	3.7	3.8	3.6	4.5	5.3	5.3
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	33.0	48.0	48.0	48.0	48.0
Deferred taxes	48.8	46.3	44.2	44.2	44.2	44.2
Deferred income	0.0	0.0	0.0	0.0	0.0	0.0
CURRENT LIABILITIES	10.2	36.8	51.6	52.5	53.3	53.3
TOTAL LIABILITIES AND SHAREHOLDERS EQUITY	503.8	459.7	394.6	393.7	397.6	401.9

Balance sheet (common size)	2021	2022	2023	2024e	2025e	2026e
Intangible assets	59.2%	63.0%	71.4%	69.1%	66.2%	62.9%
Property, plant and equipment	0.1%	0.3%	0.3%	0.3%	0.3%	0.3%
Financial assets	3.3%	4.9%	4.6%	4.6%	4.6%	4.5%
FIXED ASSETS	62.6%	68.1%	76.3%	74.0%	71.1%	67.7%
Inventories	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
Accounts receivable	0.4%	0.3%	0.7%	0.5%	0.6%	0.6%
Other assets and short-term financial assets	16.5%	16.4%	7.7%	7.7%	7.7%	7.6%
Liquid assets	17.9%	13.3%	14.5%	17.1%	20.0%	23.5%
Deferred taxes	2.4%	1.5%	0.3%	0.3%	0.2%	0.2%
Deferred charges and prepaid expenses	0.3%	0.3%	0.4%	0.4%	0.4%	0.4%
CURRENT ASSETS	37.4%	31.9%	23.7%	26.0%	28.9%	32.3%
TOTAL ASSETS	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%

SHAREHOLDERS EQUITY	75.1%	71.3%	65.7%	64.0%	64.1%	64.5%
MINORITY INTEREST	1.3%	1.3%	1.4%	1.7%	2.2%	2.8%
Provisions for pensions and similar obligations	0.1%	0.0%	0.2%	0.2%	0.2%	0.2%
Other provisions and accrued liabilities	0.8%	0.9%	1.1%	1.8%	2.0%	2.2%
Short-term liabilities to banks	0.2%	1.0%	1.8%	1.8%	1.8%	1.8%
Accounts payable	0.7%	0.8%	0.9%	1.1%	1.3%	1.3%
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)	1.3%	7.2%	12.2%	12.2%	12.1%	11.9%
Deferred taxes	9.7%	10.1%	11.2%	11.2%	11.1%	11.0%
Deferred income	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
CURRENT LIABILITIES	2.0%	8.0%	13.1%	13.3%	13.4%	13.3%
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)	2021	2022	2023	2024e	2025e	2026e
Net profit/loss	11.4	16.6	13.7	19.3	31.1	37.9
Depreciation of fixed assets (incl. leases)	0.7	0.7	0.0	0.0	0.0	0.0
Amortisation of goodwill & intangible assets	7.9	8.1	9.3	9.3	9.3	9.3
Others	-8.7	-1.2	-1.0	0.0	0.0	0.0
Cash flow from operating activities	19.4	27.3	25.3	38.5	42.8	48.3
Increase/decrease in inventory	0.0	4.3	0.0	0.0	0.0	0.0
Increase/decrease in accounts receivable	-0.5	0.4	-1.2	0.7	-0.3	-0.2
Increase/decrease in accounts payable	0.1	0.1	-0.2	0.9	0.7	0.0
Increase/decrease in other working capital positions	-0.1	-1.2	3.8	0.0	0.0	0.0
Increase/decrease in working capital	-0.5	3.5	2.4	1.6	0.4	-0.2
Cash flow from operating activities	26.4	28.5	25.3	38.7	43.0	48.5
CAPEX	0.4	1.4	0.4	0.2	0.2	0.2
Payments for acquisitions	1.2	0.6	0.0	0.0	0.0	0.0
Financial investments	0.0	5.4	0.4	0.0	0.0	0.0
Income from asset disposals	1.0	1.2	57.2	0.0	0.0	0.0
Cash flow from investing activities	-0.6	-6.2	56.4	-0.2	-0.2	-0.2
Cash flow before financing	5.7	-24.7	2.3	13.9	16.1	19.3
Increase/decrease in debt position	7.0	16.9	-5.0	-4.0	-4.0	-4.0
Purchase of own shares	0.0	20.0	0.0	0.0	0.0	0.0
Capital measures	0.0	0.1	0.0	0.0	0.0	0.0
Dividends paid	20.1	47.0	79.4	24.5	26.8	29.0
Others	-8.7	-1.2	-1.0	0.0	0.0	0.0
Effects of exchange rate changes on cash	0.0	-0.0	0.0	0.0	0.0	0.0
Cash flow from financing activities	-21.8	-51.2	-85.4	-28.5	-30.8	-33.0
Increase/decrease in liquid assets	4.0	-28.9	-3.8	9.9	12.1	15.3
Liquid assets at end of period	90.1	61.2	57.4	67.3	79.4	94.7

Key ratios (EUR m)	2021	2022	2023	2024e	2025e	2026e
P&L growth analysis						
Sales growth	-4.2%	26.2%	10.3%	24.9%	16.5%	9.9%
EBITDA growth	60.0%	14.1%	3.8%	23.4%	37.3%	15.3%
EBIT growth	254.3%	20.4%	2.9%	32.6%	48.3%	18.3%
EPS growth	32.0%	48.4%	-19.8%	41.6%	60.7%	21.8%
Efficiency						
Sales per employee	530.8	649.4	694.9	842.4	964.6	1,042.1
EBITDA per employee	176.6	195.4	196.7	235.8	318.1	360.4
No. employees (average)	157	162	167	172	175	178
Balance sheet analysis						
Avg. working capital / sales	5.8%	-2.0%	-1.0%	-1.7%	-1.1%	-1.4%
Inventory turnover (sales/inventory)	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
Accounts receivable turnover	7.8	5.0	5.0	5.0	5.0	5.0
Accounts payable turnover	16.2	13.2	11.4	11.4	11.4	10.3
Cash flow analysis						
Free cash flow	26.0	27.1	24.9	38.5	42.8	48.3
Free cash flow/sales	31.2%	25.7%	21.4%	26.5%	25.4%	26.0%
FCF / net profit	227.9%	163.4%	182.1%	198.8%	137.8%	127.5%
Capex / sales	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
Solvency						
Net debt	-38.5	-28.5	-29.7	-43.6	-59.7	-79.0
Net Debt/EBITDA	-1.4	-0.9	-0.9	-1.1	-1.1	-1.2
Dividend payout ratio	435.7%	503.3%	191.8%	147.8%	99.6%	88.1%
Interest paid / avg. debt	3.8%	2.3%	4.5%	6.3%	7.5%	9.1%
Returns						
ROCE	5.0%	6.0%	7.2%	11.0%	16.9%	20.7%
ROE	2.9%	4.9%	4.9%	7.2%	11.4%	13.7%
Adjusted FCF yield	1.8%	3.7%	3.9%	4.2%	6.1%	7.3%
Dividend yield	6.3%	10.8%	3.3%	3.6%	3.9%	4.2%
DPS	2.1	3.6	1.1	1.2	1.3	1.4
EPS reported	0.48	0.72	0.57	0.81	1.31	1.59
Average number of shares	22.4	22.3	22.3	22.3	22.3	22.3
Valuation ratios						
P/BV	2.0	2.3	2.9	2.9	2.9	2.9
EV/sales	10.5	6.7	6.2	4.8	4.1	3.6
EV/EBITDA	31.6	22.4	21.7	17.3	12.3	10.4
EV/EBIT	46.0	30.9	30.3	22.4	14.7	12.1

Source: Company data, NuWays

Disclosures

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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	09.11.2023	Wendisch, Henry	n.a.	EUR 51.00	EUR 30.00
	05.04.2023	Wendisch, Henry	n.a.	EUR 50.00	EUR 34.30

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The adj. FCF method is based on the assumption that investors purchase assets only at a price (enterprise value) at which the operating cash flow return after taxes on this investment exceeds their opportunity costs in the form of a hurdle rate of 7.5%. The operating cash flow is calculated as EBITDA less maintenance capex and taxes.

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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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