

TELEMATIK INTERACTIVE BULGARIA

ONLINE GAMING

INITIAL PUBLIC OFFERING

Key Indicators

Announced Price Range, €	25.56 – 35.79
Pre-IPO Market cap, mln €	102 - 153
Number of shares	4 000 000
Free Float post IPO	Up to 18%
P/E	9.7x – 14.5x
P/S	2.6x – 3.9x

TIB IS LOOKING TO RAISE €10MLN. TO SPEED UP ITS EXPANSION ABROAD

Telematik operates an online casino and sports betting under the brand PalmsBet on Bulgarian market. In January 2021 it launched operations in Kenya. The company is working on entering Peruvian market and the additional capital will help it to gain meaningful market share in the next two years through acquisition or newly set up subsidiary.

- **Fast growing and highly profitable.** Since 2018 Telematik has grown its revenue 38-fold to €40m and its net profit from zero to €10.5m reaching above industry average NPM of 26.5%. Secular switch to online gaming has already been providing for triple digit growth and pandemic added a boost to the existing trend.
- **More room for growth ahead.** Despite rapid growth, online gambling is still around 1/6 of total market worldwide with a few countries accounting for large chunk of it. Both, Bulgarian and target countries, are still in an early stage, especially regarding casino games. In 2021 Telematik stepped in the B2B segment by acquiring a portfolio of 180 games and an online platform for total consideration of €4.55m, including existing contracts with customers. With current revenue stream of €350k/month and over 50% NPM, only the new segment is expected to add c20% to the net profit in 2022.
- **Light financial structure.** Since inception Telematik has adopted flexible business model, using external software on a fee basis, thus having no long-term assets and using no debt. The acquisition in gaming content in 2021 was financed with own fund.
- Our estimated fair price range is between €32.4 and €37.2. Segment is extremely dynamic and future development could vary widely. In order to provide comfortable margin of safety our projected growth is in the lower end of probable range and applied high discount rate of 13%.

Key figures and ratios

	2018	2019	2020	2021	2022F	2023F	2024F
Sales, € '000	1 050	2 355	14 527	39 759	51 050	59 425	65 678
EBITDA, € '000	76	243	4 171	12 007	14 892	18 044	19 912
Net Income, € '000	-26	147	3 775	10 548	12 872	15 646	17 264
EPS, €*	-0.01	0.04	0.94	2.64	3.22	3.91	4.32
EBITDA Margin, %	7.3%	10.3%	28.7%	30.2%	29.2%	30.4%	30.3%
Net Profit Margin, %	-2.5%	6.2%	26.0%	26.5%	25.2%	26.3%	26.3%
ROE	-3.3%	17.5%	134.9%	120.6%	75.8%	60.0%	47.8%
Liabilities /Assets	0.17	0.25	0.31	0.24	0.19	0.16	0.13

* Adjusted for change in number of shares and par value
Source: Company data, own projections

COMPANY OVERVIEW

Telematik is the 3rd largest online casino in Bulgaria with an estimated 15% market share.

With €4.55m investment in gaming content the company entered B2B segment

Business model with low capital intensity

“Telematik Interactive Bulgaria” Jsc (Telematik) is a licensed online casino operator active on Bulgarian market since 2014. It offers slot games, live casino, bingo and since 2018 – sports betting. In January 2022 launched operations in Kanya as a first step of the expansion outside Bulgaria. The focus is in the less mature slot and other casino games where only a few large international competitors have been developing in the last years and founders have over 20 years experience of production and distribution of slot machines. Sports betting was introduced more recently but quickly reached 10-15% of total revenue. While facing strong competition from established international and local players it is necessary addition to the product mix.

In 2021 Telematik entered B2B segments by acquiring portfolio of over 180 slot games and online casino platform as well as existing clients base from related company CT Gaming. The activity is carried out by 100%-owned subsidiary CT Interactive which acquired licenses for operation in Bulgaria, Romania and Malta. All the games are certified and along unregulated markets, have necessary licenses for 14 other countries, mostly European. CT Interactive have started transferring contracts with online casinos and distribution platforms only in November, so revenue stream from the new business line has minor contribution to 2021 results. Once the process is completed, the company’s content will be presented on over 700 online casinos on all continents. Europe and CIS countries generate c90% of revenues but it has significant presence in Peru and builds network in the rest of LatAm as well.

CT Interactive, a 100% subsidiary of Telematik, established in March 2021, provides slot and other gambling games to online casino operators and aggregators as well as technical support and receives percent of income generated from the games. It makes B2B segment a valuable addition to the business as it provides highly scalable recurring revenue from diversified clients base. Combining B2C and B2B segments provides significant advantages:

Own casino platform and online content gives more flexibility in responding to changing clients’ demands. B2C segment on its side gives direct contact to end customers and quick feedback about products offered and adaptations needed.

Besides costs saving (the acquired games accounted for 16-17% of total license fees paid by Telematik to content providers), B2B segment add stable and diversified revenue stream and high margin.

Having slot games presented on multiple markets, gives a valuable inside about countries specifics such as clients preferences, playing pattern etc. which helps.

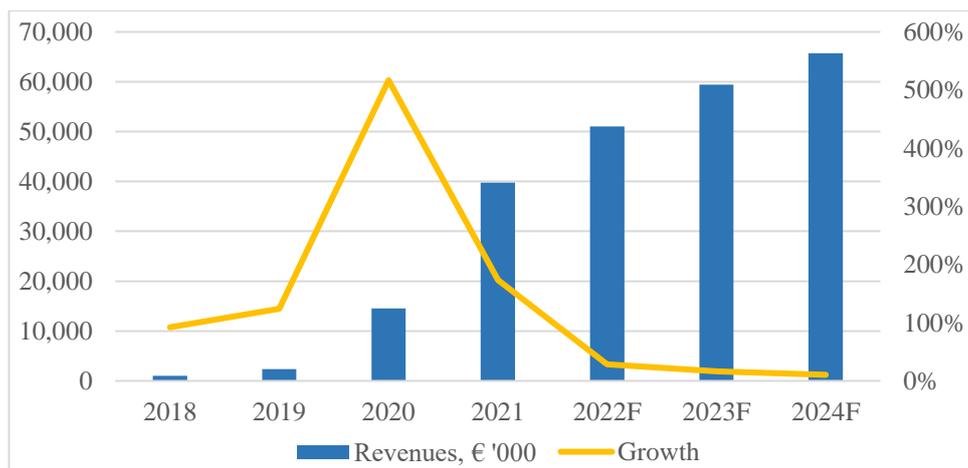
Company’s specific business model is outsourcing all major inputs except the core operating platform– games, CRM, technical support. Its keeps asset structure light and virtually no CAPEX until last year. It keeps the operating leverage low but deters margin expansion while the business is growing. The development of B2B segment will require investments in new content and software development in future. Telematik’s strategy is to focus on existing business lines and to grow through expansion of clients base and entering new markets.

VALUATION ASSUMPTIONS

Revenue

Historical data includes only Telematik Interactive Bulgaria. In 2020 the company changed some of its accounting policy and 2019 and 2018 reported data is adjusted accordingly for better comparability. The newly established subsidiary contributed to the sales only €1m last year from management services and games license fees and had no meaningful impact on overall results. The forecasted period consolidates B2B segment.

Revenue estimates in € ‘000



Source: Company reports, own estimation

Telematik recorded explosive organic growth in the last 3 years from €1m in 2018 to €40m in 2021. The triple digit growth was already present in 2019 and before but two “black swan” events in Q1 21 made the difference:

- The license of the largest online casino was suspended, and
- A full lock down was imposed for nearly 2 months.

Up to now, temporary closure or other restrictions of land gambling premises still have provided some support to revenue but more meaningful implication of the pandemic is that it broke the “barrier” of clients’ perception about online gaming and eased already existing migration from land base casinos to online. It is the main reason behind 174% increase in revenues in 2021 when restrictions were limited and rather loosely implemented.

The low share of online casino in total gambling market and secular switch to online suggest a long-term potential for above average growth. Surely, lucrative business will attract new entrants that will bite from the market. It already happened – in Q3 2021 three new local operators launched operation. One of them with very aggressive marketing campaign. Nevertheless, in the last quarter of 2021 Telematik added over 23% QoQ to the revenue and monthly active players.

	2018	2019	2020	2021
<i>Client stats monthly average</i>				
Active players	1 432	5 329	19 340	49 321
Avg Revenue Per Player	€ 61	€ 37	€ 63	€ 66
Conversion rate	37%	49%	53%	56%
Churn rate	20%	22%	9%	5%

Source: Company data

Growth came from both growing number of clients and higher spending per player until mid-2020. After that it largely stays stable around €66. Thus, attracting and retaining player turned the key for growth. Over half of people that make registration at the end do make a deposit. That above average result for online business

and could be a sign of well targeted marketing. What seems to be behind solid performance in 2021 is Telematik's ability to retain its clients – only 5% of active players drop per month on average. That is impressive improvement from previous years and outstanding for the industry. The management attributed it to deliberate improvement in customer service and support and introducing unique features on platform such as loyalty program.

It is highly improbable the organic revenue growth to sustain current level but potential future range is quite wide. The last two years have shown no shrink in sales after restrictions were lifted so most likely in future revenue will hold steady and realize more moderate growth. The virus is still widely spread and confinements, either self-imposed or from government, seems to persist for quite some time in 2022. Therefore, revenue growth in the range of 30-50% seem feasible even in the face of additional competition as we believe there is a potential for high pace of growth in coming years. **We take conservative stance to account for high level of uncertainty and pencilled 20% higher revenue in 2022 and gradual decline thereafter** that gives reasonable margin of safety and to leave more room for positive surprise.

	2019	2020	2021	2022F	2023F	2024F
B2C	123.5%	516.9%	167.0%	19.3%	15.0%	10.0%
B2B*	102.5%	99.2%	184.4%	50.0%	30.0%	15.0%

*Proforma data based on revenues from acquired games in previous years

B2B segment operated as part of CT Gaming, the latter producing and distributing slot machines, so separate financials are not available. As a proxy for historical data, we used income acquired games generated in the past. It has demonstrated solid growth in the past and, as it is tied to B2C segment, we can reasonably expect to continue in the future. Telematik sees huge potential in B2B segment and plans to double down its efforts to utilize the resources and the structure of its subsidiary to speed up its development:

- Improvement of utilization of existing clients base. The management sees significant reserves to increase the income from existing client through better service and promotions with necessary human resources and marketing expenses budgeted for 2022.
- Expanding on new markets. The company plans to add sale, technical and customers support to cover the new regions.
- More investment in content.

The recurring nature of the revenues and diversification across clients and markets makes income stream more stable and predictable. According to the company, in December the income from license fees was €350k or €4.2m annualized. We project income to add 14% to December level in the course of 2022 and to reach €4.8m and while lower, to stay elevated in the next two years.

	2018	2019	2020	2021	2022F	2023F	2024F
Revenues	1 050	2 355	14 527	39 759	51 058	59 435	65 690
<i>growth, YoY</i>	92%	124%	517%	174%	28%	16%	11%
Casino games	964	2 021	12 402	35 422	42 306	48 652	53 517
<i>growth, YoY</i>	76%	110%	514%	186%	19%	15%	10%
Sport betting	86	334	2 125	3 301	3 961	4 555	5 010
<i>growth, YoY</i>		287%	536%	55%	20%	15%	10%
Online games				187	4 791	6 228	7 162
<i>growth, YoY</i>					2467%	30%	15%
Management services and others				850			

Expenses trends

Specific for the B2C business is that some 2/3 of expenses are either a fee, based on % of net gaming revenue (content providers/license fees, referral fees, gaming tax) or closely correlated with revenue (payment providers, CRM software, hosting services). It lowers the risk in a downturn but limits potential for margin expansion when growing.

The opposite is true for B2B segment. Payroll and other administrative expenses, technical support and hosting are less correlated with sales and profit margin widens with revenue growth.

Tax expense

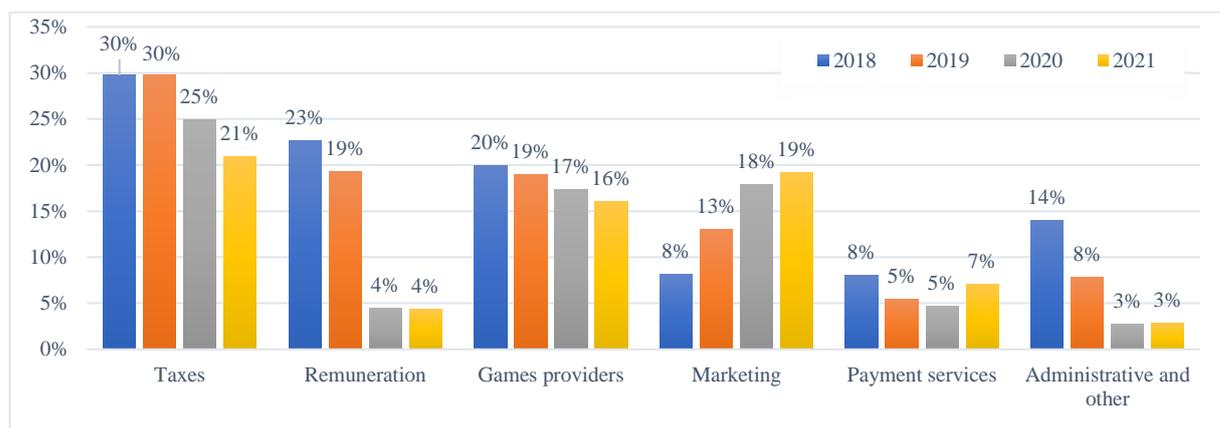
The single largest expense is gaming tax, 20% of the difference of bet made and wins paid. Withholding tax also is included but its share is much lower. The gambling regulations in Bulgaria are largely stable and **no changes are expected in taxation**. The regular corporate tax rate of 10% is applied to the income.

There are no special taxes for CT interactive and general tax law applies.

License fees

Telematik pays to content providers fees negotiated as percent of revenue. Usually fee depends on revenue generated – the more revenue the lower fee is charged. As the company grows its size, it moves to lower fee bracket and license fees steadily decline relative to sales. The largest games provider has dominant position on local market and maintains the highest fee level that is well above market average. **In our projections we hold the current level of 16% of revenue, although some improvement is likely** as Telematik continues to move to lower fee brackets and/or if new game providers with lower fees manage to dilute the share of the dominant one. Telematik used to pay for games acquired last year around 17% total license fees. For better comparability, in the projections those expenses are not set off.

Cost structure, % of Revenue



Source: Company reports, own estimation

Marketing expense

Telematik continuously has been raising its marketing expenses for the last two years in an intensive competition to attract the wave of new customers coming from land casinos and suspended online operator. It increased the marketing expenses from 13% to over 19% of sales. Marketing is carried out across all possible channels – digital, TV, outdoor, sponsorship of the most popular local football team, etc. The efficiency of the marketing is the key for future success. It not only takes large chunk of total expenses but is under control of the management as the rest of expenses are either tied to sales or insignificant. Referral fees paid to affiliates are part of marketing expenses and are calculated as percent of generated income. After sharp rise, in 2020 and 2021 referral fees stabilized around 4.7% of revenue. It seems Telematik is doing a good job as it manages to gain market share even though main competitors’ budgets are magnitudes above Telematik’s spending. As the market dynamics is expected to moderate, so are marketing expenses. **For the following years expectations are marketing to tick up slightly as a share of revenue this year and to stay steady thereafter.**

Management plans more active promotion of its content supported with more spending on marketing but it in any case it will be a small fraction of B2C spending and won’t have meaningful impact on consolidated projections.

Payment fees

Having large number of small deposits and withdrawals from multiple clients makes payment providers a vital for the business. In Bulgaria quite large portion of population don't use bank services and payment providers handling cash deposits and withdrawals are widely spread. In the last years banks using as excuse thin net interest margin took the chance to raise its fee across the board and some non-bank financial institutions followed them. There is also a change in the clients profile with a growing number of customers that incline to more transactions with smaller amounts. Those factors broke the downward trend in transaction costs and in 2021 it reversed up considerably. Expected increase in interest rates and growing discontent from excess fees probably will deter further hikes in fees. Growing competition from new payment providers might even press down payment expenses from current elevated levels in mid-term. Nevertheless, **we project payment costs to reach 9% of revenue in 2022 and to creep up a bit in following years.**

Employee costs

Initial large flow of new clients was met with existing resources. While sales in 2020 bounced 5-fold, compensation cost ramp a mere 48%. It benefited hugely the bottom line as staff payments dropped from 19.3% of sales in 2019 to just 4.6% next year. In 2021 Telematik played a catch up and remuneration costs moved up to €1.9m from €653k in 2020 in line with the revenue and did not affect the margin. **The company do not plan changes in its current structure and payroll likely at least to move in line with sales** if not going down.

The management intentions to reinforce its sales, technical and customer support capacity is going to double employee expenses from current level. Highly scalable nature of the business and as the efforts are supposed to pay off most likely will bring down payroll expenses in the following years after initial pump up.

	2018	2019	2020	2021	2022F	2023F	2024F
Operating Expenses							
Materials	3	3	12	137	98	111	122
<i>% of sales</i>	0.2%	0.1%	0.1%	0.3%	0.2%	0.2%	0.2%
Cost of hired services	407	939	6 063	17 269	23 259	26 608	29 559
<i>% of sales</i>	38.8%	39.9%	41.7%	43.4%	45.6%	44.8%	45.0%
Compensation	238	454	653	1 861	2 727	3 050	3 199
<i>% of sales</i>	22.6%	19.3%	4.5%	4.7%	5.3%	5.1%	4.9%
Gaming tax and other	326	716	3 628	8 486	10 235	11 773	12 957
<i>% of sales</i>	31.1%	30.4%	25.0%	21.3%	20.0%	19.8%	19.7%
<i>Total operating expenses</i>	974	2 112	10 356	27 752	36 318	41 542	45 838
<i>% of sales</i>	92.7%	89.7%	71.3%	69.8%	71.1%	69.9%	69.8%

EBITDA (Operating Income)	76	243	4 171	12 007	14 740	17 893	19 852
<i>EBITDA Margin</i>	7.3%	10.3%	28.7%	30.2%	28.9%	30.1%	30.2%
Depreciation and amortization	102	109	106	332	573	639	705
Financial Income/(Expenses)	0	13	92	90	-17	-20	-24
Income Before Taxation	-26	147	4 156	11 765	14 150	17 233	19 123
Tax provision	-1	1	381	1 217	1 415	1 723	1 912
Net Income	-26	147	3 775	10 548	12 735	15 510	17 211
<i>Net Profit Margin</i>	-2.5%	6.2%	26.0%	26.5%	24.9%	26.1%	26.2%

Source: Company reports, own estimation

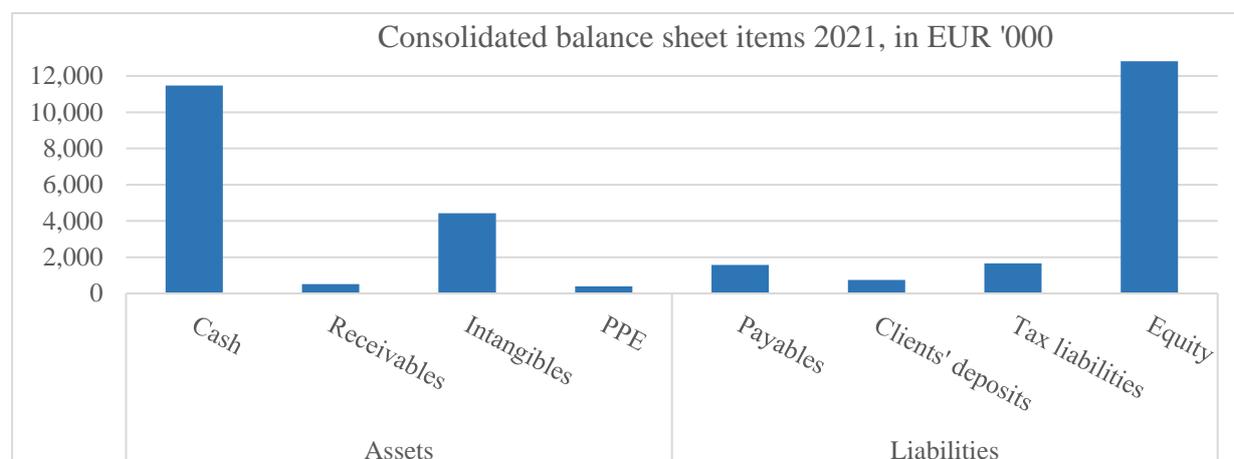
Administrative expenses

It comprises mainly of IT related expenses – software fees, hosting, technical support – that depend on number of players, internet traffic, etc. and are correlated with size of the business. Remaining part (rental expense, consulting, accounting, legal, utilities) are largely fixed. Materials are almost entirely marketing materials related with outdoor campaigns and football club sponsorship and not changes are expected.

The management intends to develop its B2B segment that involves more investments in software development. Game development expenses are capitalized but upgrades, improvements, additional functionalities and other minor developments are expensed as they occur.

CAPEX and depreciation

Until 2020 Telematik had virtually no capex. Last year it made a major acquisition of slot games and online platform for €4.5m. The plan for next years is to add between 17 and 20 new games per year that are considered sufficient to refresh the portfolio. As mentioned above, platform developments are expensed. For marketing its sport betting offers, B2C line plans to open a few physical betting points. The planned annual capex is around €0.66m annually.



Balance sheet items and working capital

Telematik’s balance sheet is rather light even after consolidating B2B business with assets comprising mainly of cash. It uses no materials, no interest-bearing liabilities or any other off-balance sheet items or guarantees. As clients has to make deposit before playing, there is no receivables. Usually, customers deposit small amount and either play it out or withdraw the winning shortly and only small portion of deposits made stay on the balance sheet. Besides clients’ deposits, remaining liabilities are taxes, staff payable and suppliers that are booked at the end of the period and paid the following month.

CT Interactive forms receivables as invoiced amounts are due the following month. Delays in payments are rare as access to the games can be block and casino operators are motivated to cover amounts in a due manner. Games and online platform are the most significant assets.

Net working capital is commonly negative and has positive contribution to the free cash flow as the business grows. No future debt financing is envisaged.

Overall, in building our projections we took markedly conservative approach projecting sales in the lower end of probable range and anticipating increasing proportion in certain expenses, thus narrowing expected profit margin. In our view, there is a good chance the revenue growth to be higher for longer that will allow, if not to improve, at least to keep margins at current levels.

DISCOUNTED CASH FLOW CALCULATIONS

Announced expansion on new markets is difficult to value as the possible outcomes vary greatly. Regarding Peru, Telematik consider both options – green-field investment and acquisitions - that makes projections even more unclear. Operations in Kenya started on January and expectations are that neither expected expenses (up to \$20 000 per month) nor expected benefits are significant enough to impact valuation and meaningful surprises, if any. More likely to be on the upside. Deteriorated situation in Ukraine will deter the plans or could be scrapped altogether and replaced with another market.

Following the consideration above, our calculations are based only on existing business.

EUR, '000	2021	2022	2023	2024
Net Income	10 548	12 735	15 510	17 211
Depreciation	332	573	639	705
Increase (decrease) in WC	-1 987	-1 157	-646	-455
Investments	4 559	662	662	662
FCF total	8 308	13 803	16 133	17 709

Required rate of return	13.0%
Long-term growth rate	3%

PV of FCFE 2022-2024	37 123
PV of Terminal value	126 413
Cash, net of liabilities	7 483

Minority discount	20%
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Total value of equity	136 815
Share price	34.2

Discount rate. In our base case we apply 13% discount rate. NYU Stern calculates 7.4% equity + country risk premium for Bulgaria - well below the one we apply. As a socially sensitive business, subject to many regulations, respectively, more risk involved in the business. Major central banks either announced or consider change of zero-interest rate policy that makes quite likely raising interest rate even by ECB despite being seemingly reluctant to do so. It justifies applying higher interest rates when discounting long-term cash flows. Yet, 13% may still looks exacerbated but provides more cushion in our valuation.

Growth rate of 3% is the average GDP Growth rate in Bulgaria for the last 20 years.

As discussed above, around 80% of the operating expenses are variable and sharp changes in margins are not expected. The model is most sensitive to changes in B2C segment sales growth and the discount rate. In the table below we show the variation in valuation under different scenarios.

	In EUR	Discount rate		
		12%	13%	14%
Sales growth	15%	33.7	33.1	32.4
	20%	34.9	34.2	33.5
	30%	37.2	36.4	35.7

The estimated fair price range, after applying 20% minority discount is between €32.4 and €37.2.

We do not apply peer valuations as market multiples vary wildly due to characteristics of different markets, business specifics and one-off events. Neither mean nor median value would provide meaningful representation for the industry.

MARKET OVERVIEW

While gambling market is mature, Telematik has the benefit to operate in the better performing segment (online casino) of fast growing online gambling.

Global Online Gambling Industry

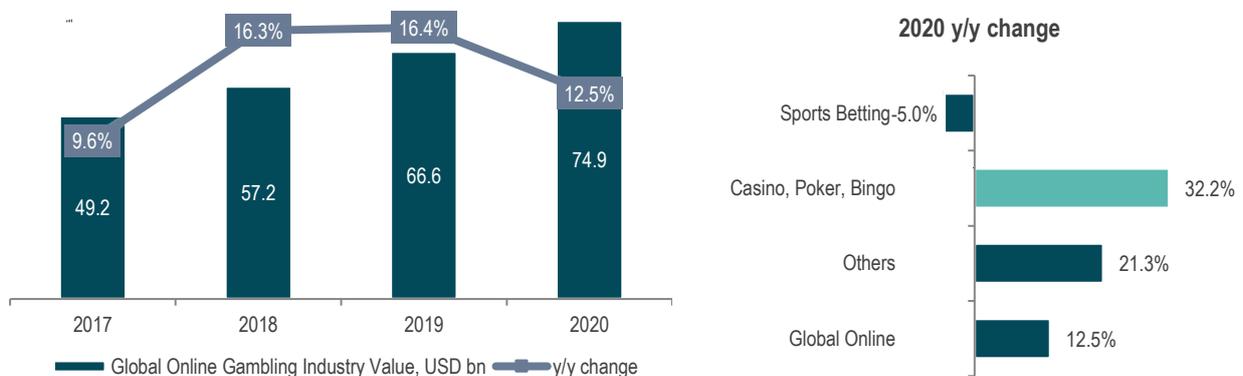
The global gambling market, both offline and online, worth some EUR 298bn in 2020 as measured in gross gaming revenues, according to market estimates from H2GC. Roughly 80% of this figure comprised land-based gambling, primarily via monopolized state-owned lottery operations and land-based casinos. The online segment accounts for about 12% of the total market but has grown significantly faster than the total gambling market in recent years. For the past five years (2016-2020), online gambling achieved a CAGR of around 12% against negative 4.3% for the entire market for the same period. Major driving factors behind the online segment development include the rising access to the internet, improved payment solutions, and increased regulations. According to H2GC, the casino segment of the online gambling market has had an annual growth rate of 13.5% between 2016 and 2020. Drilling down further, live segment of the online casino market has been the fastest growing segment, with an annual growth rate of 28% for the same period while the growth rate for RNG (random number generators) amounted to 9%.

Global Gambling Market CAGR (2016-2020)



Source: H2GC

According to MarketLine estimates, the online casino, poker, and bingo segment increased its revenues altogether by CAGR of 17.3% over 2017-2020, faster than the sports betting segment which saw its revenues growing by 10.4% CAGR for the same period. In 2020 alone, the global online gambling industry grew by 12.5% y/y to USD 74.9bn. Those figures include the segments of online sports betting, casino games, poker, bingo, social gaming, and lotteries. The growth has been mixed across segments with sports betting slowing down, while online casino segment's revenues rallied. The cancellation and suspension of sporting events worldwide, coupled with the diminished consumer confidence and spending power has led to a reduction in spending on entertainment, such as online gambling, which eventually reduced leading players' revenues growth.

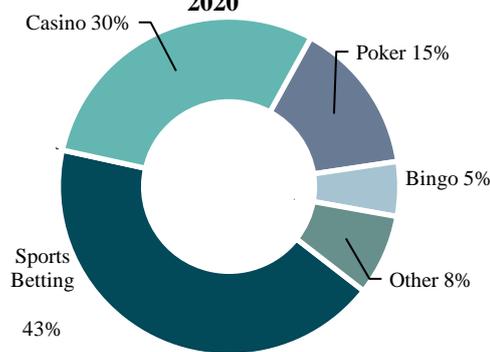


Source: MarketLine

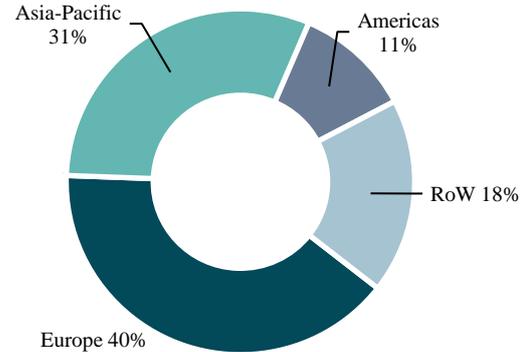
Overall, sports betting experienced a 5% y/y decline in 2020, slicing 43% market share. In contrast, the online casino segment has thrived as spending on online casino, poker and bingo altogether increased by 30-35%

y/y due to migration of sports betting users to these segments. The growth was stronger than in any other year as companies sought to expand into the non-sport betting segments to diversify their revenue. The online casino, poker and bingo segment became the largest in 2020 with total estimated revenues of USD 37bn, half of the total online gambling industry value. The online casino generated revenues to the tune of USD 22.1bn (30% share), the online poker segment had revenues of USD 11bn (15% share), and the online bingo segment contributed to USD 3.9bn (5% share).

Online Gambling Industry by Segment, 2020



Online Gambling Industry by Region, 2020

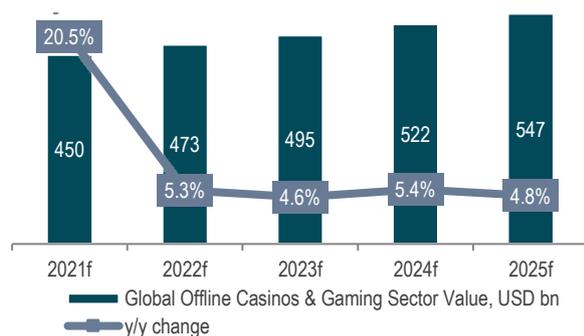


Source: MarketLine

According to H2GC, the global online casino market had an estimated value of EUR 16.5bn in 2020, increasing by 23% y/y. With an estimated value of EUR 5.3bn, the live casino segment sliced 32% share (EUR 5.3bn) in the total online casino market value.

Outlook

The shift from offline to online is expected to continue in the coming years. MarketLine project online sector of the global gambling industry to grow with CAGR of 9.6% in 2020-2025 to 18% market share in the total gambling revenues worldwide, up from 16.7% in 2020. The Asia-Pacific and Americas online gambling markets is expected to grow at CAGR of 7.8% and 10.4%, respectively, to reach respective values of USD 33.6bn and USD 13.4bn in 2025. Spending in those two regions will grow at an accelerated pace thanks to improved internet access, higher digital literacy and rising disposable income. On the other hand, spending in Europe is expected to growth at a CAGR of 7.2% in 2020-2025 as demand is increasingly becoming saturated from the high growth rates of recent years.

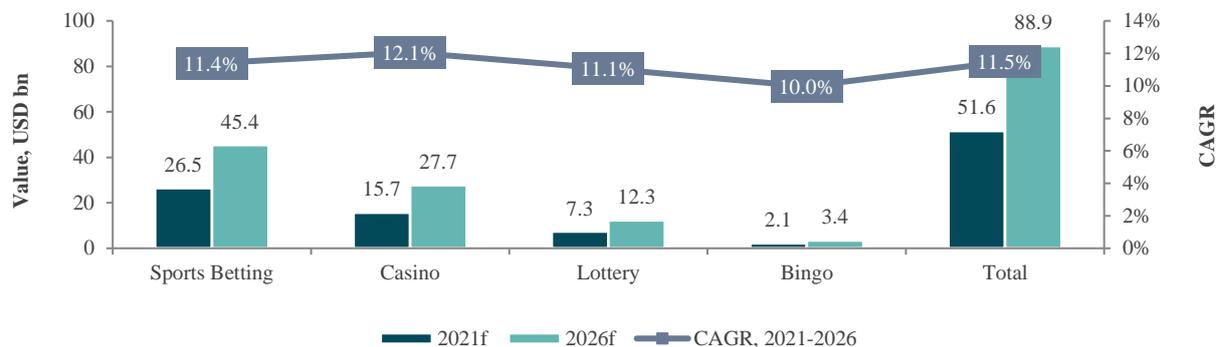


Source: MarketLine

According to H2GC, the entire gambling market (online and offline) will likely grow by 9.1% annually by 2025, reaching a total value of EUR 460bn. The online segment is expected to grow to an estimated share of 20% in 2025. Latin America makes up only 2% of the global online market. Despite its relative infancy in size compared to other geographies, it is a high growth market which is expected to grow at a CAGR of 19% between 2020 and 2023.

Mordor Intelligence values the global online gambling market at USD 46.5bn in 2020, and expects it to reach USD 88.9bn by 2026, at an estimated CAGR of 11.5%. The casino segment of the online market is to grow at the fastest rate at 12.1% CAGR in 2021-2026.

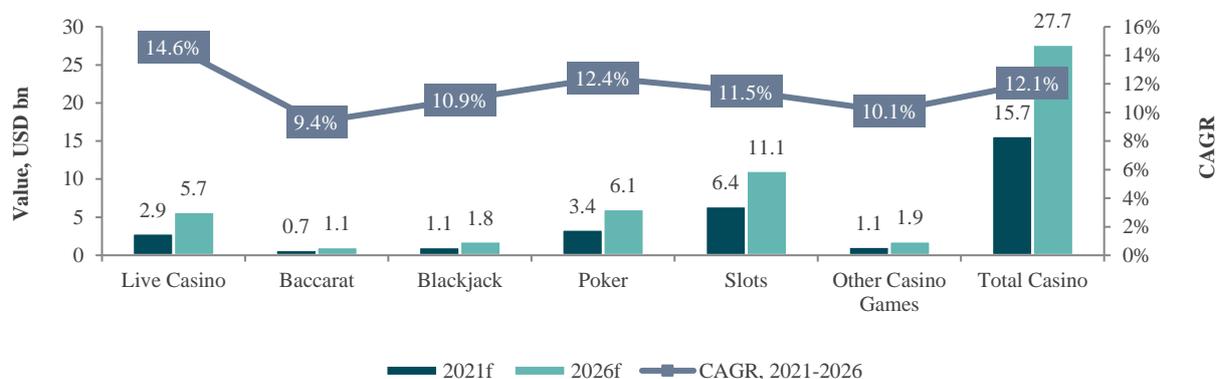
Global Online Gambling Market



Source: Mordor Intelligence

Out of casino games, slots are the largest item but live casino and poker catch up.

Online Casino Market



Source: Mordor Intelligence

The South American online gambling market was valued at USD 120.mn in 2020. It is projected to reach USD 215.5mn by 2026, registering a CAGR of 10.5% for 2021-2026. Colombia is among the first country in Latin America to regulate online gambling in 2016, and the gaming and betting market has been growing steadily since licensing began in 2017. Gaming and betting contributions to the national treasury rose by 106% increase from the previous year. Regulation in the region is in its infancy with some countries recently introducing licensing and other, such as Peru, plan to do so in future.

The Middle East & African online gambling market was valued at USD 747.6mn in 2020. It is projected to reach USD 1.15bn by 2026, registering a CAGR of 8.1%. When it comes to technology and internet penetration rate, Nigeria is one of the leaders in the African continent. Moreover, there is a significant growth in the online sports betting, especially in football, which increased the growth of the overall online gambling market in Nigeria.

Ghana is one of the countries where online gambling is legal and highly popular. According to various open statistics sources, there are around 283 Ghanaian websites that accept wagers in Ghana but also are gateway to most of the continent. This includes 185 online casinos, 18 online poker sites, 34 online sportsbooks, 19 online bingo, 25 online mobile casinos, 4 online lottos, and 2 online DFS (Daily Fantasy Sports).

Kenya is a country in Sub-Saharan Africa with legal gambling. The Kenyan government does not block the foreign online gambling sites, thus "illegal" internet casino betting and sportsbooks are all highly enjoyed by the Kenyan players.

INVESTMENT CONSIDERATIONS

Company strategy

Online gambling takes still a small share in overall gambling market and until recently major international companies have been focused on sport betting. Online casino market grew to significance only in the last years. Management sees potential to grow through expansion to mid-size underserved markets with no intensive competition. In the case of Peru, the advantage is that the market is well known – a related company from land-based business has had an office for more than 10 years and the B2B segment is already well positioned on local online gambling sites.

Competition

On international level, competition consists of large number of small local or regional operators. There are few large international players in online casino segment but explosive growth in the last two years drew attention in, so competition is going to intensify. Bulgarian market is dominated by three local operators, one of which is Telematik, and Bet365 and Bwin, controlling sport betting. Despite the small number, fight for market share is intense, particularly between local companies. Three new operators entered in 2nd half of 2021, one of them with very aggressive marketing. Nevertheless, Telematik realized over 20% higher sales in Q4 21. It demonstrates company's strong ability to attract and retain clients and potential of the market.

There is plenty of readily available online platforms, gaming platform, etc., lengthy licensing process and massive marketing requirements make entry barriers high. It is not the case with B2B segment where competition is without borders and massive supply from huge number of providers is available. Most of the markets require certification from reputable agency and quite often, a local permission is required. The Telematik's advantage is already build large client base, certifications required and licenses in 14+ jurisdictions.

On local market the largest competitor is EGT that operates the largest online casino and has significant influence as a game provider. On international market, except Swedish company Evolution (live casino) there is no suppliers with dominant position as there are plenty of slot games providers.

Potential risks

Being a heavily regulated business, considerable risk is adverse change in regulations or even an outright ban on gambling. The latter is rather improbable as governments tend to open the markets, though with more regulations that is actually beneficial for legal online casinos as predictability and clear environment helps market to grow.

KEY RATIOS

	2018	2019	2020	2021	2022F	2023F	2024F
EBITDA Margin	7.3%	10.3%	28.7%	30.2%	28.9%	30.1%	30.2%
Net Profit Margin	-2.5%	6.2%	26.0%	26.5%	24.9%	26.1%	26.2%
ROE	-3%	18%	135%	121%	75%	60%	48%
ROA	-3%	14%	95%	90%	59%	49%	41%
Current Ratio	4.52	2.31	1.59	3.00	4.18	5.42	6.65
Total Liabilities/Total Assets	0.17	0.25	0.31	0.24	0.19	0.16	0.13

Source: Telematik Financials, own forecasts

INCOME STATEMENT

(in thousand €, IFRS)

	2018	2019	2020	2021	2022F	2023F	2024F
Revenues	1 050	2 355	14 527	39 759	51 058	59 435	65 690
Operating Expenses							
Materials and energy	3	3	12	137	98	111	122
Compensation	407	939	6 063	17 269	23 259	26 608	29 559
Cost of hired services	238	454	653	1 861	2 727	3 050	3 199
Other operating expenses	326	716	3 628	8 486	10 235	11 773	12 957
<i>Total operating expenses</i>	<i>974</i>	<i>2 112</i>	<i>10 356</i>	<i>27 752</i>	<i>36 318</i>	<i>41 542</i>	<i>45 838</i>
Operating Income	76	243	4 171	12 007	14 740	17 893	19 852
Depreciation and amortization	102	109	106	332	573	639	705
Total financial Income/(Expenses)	0	13	92	90	-17	-20	-24
Income Before Taxation	-26	147	4 156	11 765	14 150	17 233	19 123
Tax expenses	-1	1	381	1 217	1 415	1 723	1 912
Net Income	-26	147	3 775	10 548	12 735	15 510	17 211

BALANCE SHEET

(in thousand €, IFRS)

Assets	2018	2019	2020	2021	2022F	2023F	2024F
Current Assets							
Cash and cash equivalents	599	575	2 715	11 471	20 753	31 156	41 885
Receivables	1	14	6	427	439	571	657
Trade loans	51	110	571	83	0	0	0
Prepayments	2	0	0	0	0	0	0
<i>Total current assets</i>	<i>652</i>	<i>699</i>	<i>3 292</i>	<i>11 982</i>	<i>21 192</i>	<i>31 727</i>	<i>42 541</i>
Non-current Assets	0	0	0	0	0	0	0
Property, Plant and Equipment	266	248	142	4 428	4 364	4 260	4 117
Intangibles	0	0	0	388	541	668	768
Long-term receivables	0	265	3 316	0	0	0	0
Goodwill	1	2	4	1	1	1	1
<i>Total non-current assets</i>	<i>267</i>	<i>515</i>	<i>3 461</i>	<i>4 817</i>	<i>4 906</i>	<i>4 929</i>	<i>4 886</i>
Total Assets	919	1 214	6 754	16 798	26 098	36 655	47 427
Liabilities and Equity							
Current Liabilities							
Accounts payable	15	20	812	1 325	1 587	1 805	1 992
Clients' deposits	62	113	377	740	837	913	955
Accrued expenses	23	61	113	254	318	356	373
Tax payables	39	108	765	1 668	2 333	2 778	3 073
Other current liabilities	6	0	1	0	0	0	0
<i>Total current liabilities</i>	<i>144</i>	<i>303</i>	<i>2 068</i>	<i>3 988</i>	<i>5 074</i>	<i>5 852</i>	<i>6 392</i>
<i>Long-Term Liabilities</i>	<i>11</i>	<i>0</i>	<i>0</i>	<i>0</i>	<i>0</i>	<i>0</i>	<i>0</i>
Total Liabilities	155	303	2 068	3 988	5 074	5 852	6 392
Total Equity	764	911	4 686	12 811	21 024	30 803	41 034
Total Liabilities and Equity	919	1 214	6 754	16 799	26 098	36 655	47 427

Source: Telematik Financials, own forecasts

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