Affiliation 3.0:

We have been followers of the affiliate industry within online gambling for more than 10 years and have invested in the space on and off for the entire time. While the trajectory over these 10 years have clearly been upwards it has been a bumpy road for several of the companies that was listed in the space.

1. **Start and consolidate:**

While the industry leaders as we know them today was founded in the 2005-2015 timeframe most of them was tiny businesses mostly growing organic in a limited number of markets with few partners. It was a time where it was easy for smart young guys in a basement that understood SEO to start a few websites, get them ranked on good keywords on Google and started to send traffic to gambling sites of different kinds in different jurisdictions. Regulation was very light at that time and in most countries non-existing. A lot of these affiliate startups managed to make a lot of money on this.

The period from 2015 to 2018 saw a heavy consolidation phase within the industry as some of the bigger players started to roll up other sites and brands. In that period the vast majority of the revenue was generated from the UK and Scandinavia as the far most mature affiliate markets. Today we have 6 big listed players in the industry:

- Better Collective founded in 2008 and listed in Sweden in 2018
- Catena Media founded in 2012 and listed in Sweden in 2016
- XL Media founded in 2008 and listed on London AIM in 2014
- GiG Media was founded in 2007 and reverse listed in Oslo in 2015
- Gambling.com founded in 2007 and listed on Nasdaq in 2021
- Raketech founded in 2010 and listed in Sweden in 2018

Many of the companies could in that period use highly valued shares and cheap debt to roll up other sites at much lower multiples. As many of the smaller firms was just run by a handful of people, focusing on a few websites that was heavily reliant on Google rankings, many young founders did not have an issue to "cash in" at somehow low multiples after a few years of hard work. Another reason was that most people could see regulation coming at full force in the future country by country that would put restrains on smaller affiliates.

2. **Integrate and regulate**

From 2018-2020 the industry was undergoing a heavy phase for regulation. The 2 biggest countries UK and Sweden regulated their online gambling industry with heavy restrictions on affiliate marketing and higher taxation hurting profits. At the same time most of the companies, especially Catena Media, had a hard time integrating all the companies that was acquired over the years. At the same time in 2018 the US supreme court removed PASPA and opened up US sports betting that from 2019-2021 delivered a gold rush for the industry. Many of the European players was quickly to launch and buy US assets to use their knowledge and build valuable positions in the US market.

3. **Expansion and stabilization**

The period from 2021 and until today is what I call affiliation 3.0. We now have some bigger more mature affiliate companies. After the Dutch and German regulation, the biggest regulatory hurdles in Europe are behind us and the industry is more mature. The penetration in many southern and eastern European countries is still a fraction of the UK and Nordics and still have a lot of growth opportunities. With regulation in both US and Canada and several Latin American countries the Americas region are growing fast. And some of the affiliates are also starting to see traction in Asia and Africa.

With regulation there is also new marketing channels opening op. in the past, the far majority of players came from google search rankings. But in regulated countries new channels like Google Paid ads, Facebook ads, display marketing, email and programmatic etc. is opening up more. When a country regulates its normally a short-term burden (higher taxes and tuff regulation) but in the long term a win as the markets expands in size.

Where are we now?

As we wrote before we have invested on and off in this industry on both the long and short side over the years. As off today we think the industry as a whole, but especially some of the players are in a really good position.

Just taking a step back and think about it. This should be a highly attractive industry:

- Asset light companies with 30-50 % EBITDA margins growing 10-20 % organic in a structural, recession-proof, non-cyclical growth industry with massive offline to online tailwinds still to come.

Companies like that should be able to command really high valuation multiples. But outside the peaks in 2017-2018 that has not been the case (for good reason). As I wrote, while in theory these should be highly valued companies the volatility of the results has dampened that. In the past most of the companies was highly depend on either Casino or Sport, only a few countries (mostly Scandinavia or UK), only a few big websites and all of them on google SEO. This meant that the companies while growing in general could suddenly see revenues decline 10-20 % due to one country regulating or because of a bad google update for one of their big sites.

We think this have changed now for several reasons. This is the case for the whole industry but especially for our top picks: Gaming Innovation Group and Better Collective. While we do not have a negative view on the other players, GiG and Betco are our favorite stocks for several reasons:

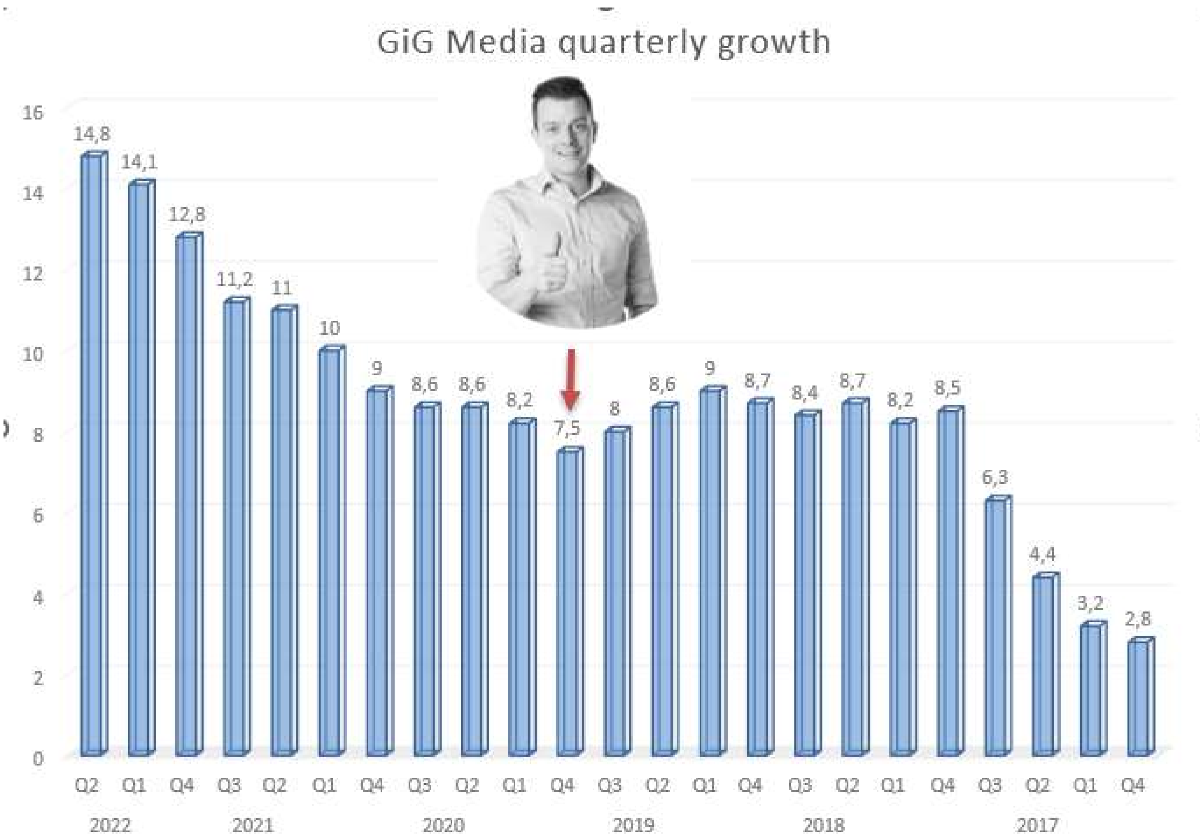
1) They have had the best organic growth rates.
2) They have shown they can operate successfully in regulated European markets
3) They are diversified between both Search and Paid channels
4) They are diversified between Casino and Sports
5) They are diversified geographically
6) They are not dependent on a few sites.
7) They rely more on revenue share contracts (recurring revenue) instead of CPA (upfront payments)
8) They are still run by passionate founder teams (some of the others are also to be fair).

One of the reasons that we are not a huge fan of Catena Media, XL Media and Raketech is because they are struggling in their European home markets while growing heavily in north America mainly because of a lot of M&A and relying heavily on one-time CPA revenue. Also, neither of them has a strong position in Paid Media that over time will be an important weapon in regulated markets. While we are not short any of them, we do not think their businesses are build on a strong foundation.

While we do not have (and never have had) inside info into Better Collective we have decided for corporate governance reasons not to include Better Collective in our investable universe as some of our large fund investors is the founders of Better Collective and the Chairman of Better Collective is a board member in Symmetry.

As said, Betco and GiG is our top picks in the sector. With Better Collective excluded as an option, we think the by far most interesting player today is Gaming Innovation Group.

GiG Media grew heavily in 2017 by several acquisitions laying the foundation for what GiG Media is today. But after tripling revenue in just one year from 2,8 million EUR in Q4 2016 to 8,5 million in Q4 2017 reality hit them. The regulation in UK and Sweden happened as well as the need to shut down the Dutch business. GiG was also cash constrained as the profits form GiG Media had to fill in wholes in other places of GiG. That limited the number of reinvestment opportunities and GiG Media have those not done any material M&A transactions since 2017.They those started to see the revenue declining QoQ and it was reasonable to fear this was a melting ice cube.



Fortunately for GiG, in 2017 they bought a Danish company called Rebel Penquin founded and led by Jonas Warrer. When Richard Brown became CEO for GiG, he put Jonas in charge for the Media division in October 2019. To understand where GiG Media could go from here, its important to understand the hand he was given.

Basically he was basically told: *"We have all these sites that we bought and all these people. Our revenue is declining and you need to send all the profits you make to HQ to fund other parts of GiG".*

Jonas then started to put in systems, analytics, tracking, IT and monitoring etc. that consolidated the sites around a single methodology, accountability and around "one GiG". Step by step they improved rankings and usage of existing sites while planting small seeds on new sites.

And what magic he has made from that hand. In only 2,5 years from Q4 2019 until Q2 2022 he has doubled revenues from 7,5 to 14,8 million EUR. This while never compromising on profits (EBITDA margins stayed between 44 % and 52 % the whole time) and while being heavily cash constraint.

While its an impressive turn around – the even more exciting part is the foundation they have built for the future. Because the other parts of GiG are now becoming self-funded and cash flow positive, for the first time since he became CEO of Media Jonas can now afford to invest heavily in growth initiatives. This can be building new sites, doing accretive M&A and expanding Paid Media.

There are reasons why we think they will become this structural growth player from here on:

1) Online gambling in itself is a structural growth industry
2) The offline to online transition is still in its infancy in many geographical areas
3) GiG is sending majority of traffic on perpetual revenue share contracts and those securing long term growth.
4) They are geographically diversified between mature markets, new markets, emerging markets etc.
5) They are balanced between casino and sport
6) They are balanced between paid and publishing
7) Majority of big markets already regulated.

When talking to Jonas he clearly expresses that he wants to grow every year from here. Q3 can sometimes be a little seasonal weak, but outside that they also want to grow every QoQ. In this industry there will always be some hiccups. Some country not performing well, some site not doing well etc. but GiG is so diversified now that on a consolidated view they should show stable growth from here.

GiG Media is on a path to deliver around 30 million EUR in EBITDA (basically equal FCF) this year and more than 35 next year. Today the whole market capitalization of GiG is 240 million EUR. If we assume that GiG Platform is worth 0 (something I don't believe) and SportnCo is worth the same as GiG paid for it 6 months ago the enterprise value is around 200 million EUR.

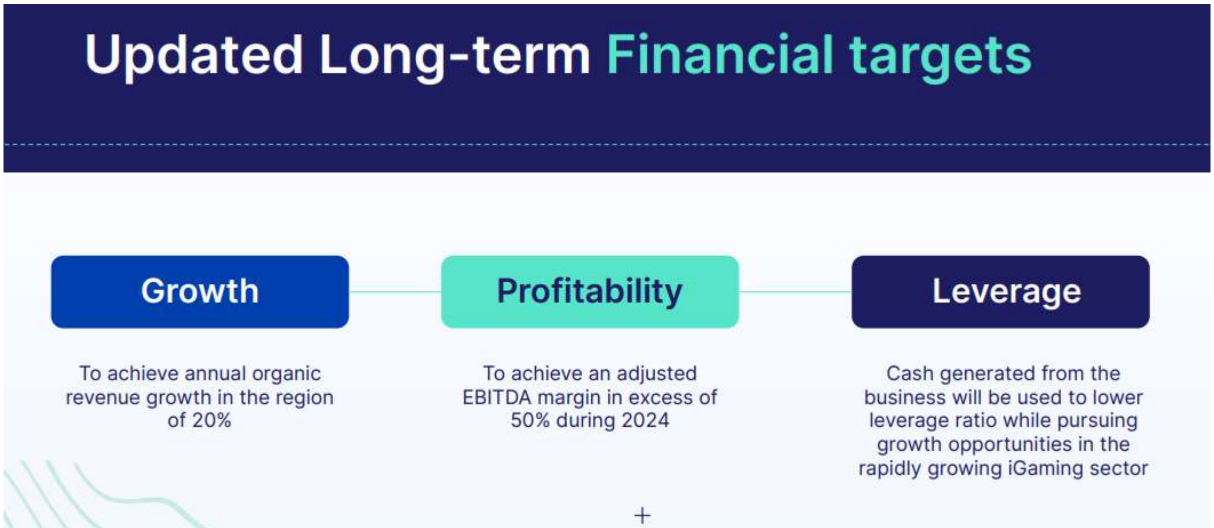
Today you are paying 6,6 times this year FCF and 5,7 times 2023 FCF for a business currently growing 40 % organic. And you get the platform division for free.

It will take time for the market to expand the multiples here. GiG needs to show the stabile growth QoQ for a longer period of time. But over time we think the larger diversified affiliate companies can command market multiples in line with other lead generation companies and marketplaces in other sectors.

In 2025 for example we think GiG Media could do 50-60 million EUR in free cash flow. If at that point GiG Media would have grown revenue every quarter for 5 straight years as still growing double digits at that point, we do think the market would start to apply a still conservative 15x multiple on that cash flow.

That alone could be worth 75 NOK per share. Add maybe 25 SEK for the platform + SportnCo 3 years out and you have a target of 100 NOK only 3 years out compared to 20 NOK today.

And this is not something we just project. GiG recently updated their own long-term targets in their Q2 report:



Simple math taking the 2022 guidance, including full SportnCo consolidation and using 20 % organic growth in 2023 and 2024 you get to around 150 million EUR in 2024 revenue. With +50 % EBITDA margin that's 75 million EUR EBITDA. We project around 60-65 million of that flowing directly to free cash flow. Using a 14-16x multiple on that FCF we are +100 NOK again.

While things could go wrong along the way we like the path and risk reward here – that's why GiG is one of our largest positions.

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