

Interim Results

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Gaming Realms PLC
20 September 2022

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Gaming Realms plc

(the "Company" or the "Group")

Interim Results

Content licensing revenue grows by 57% to £6.4m

EBITDA^[1] of £3.5m^[2] with a 41% EBITDA margin

Gaming Realms plc (AIM: GMR), the developer and licensor of mobile focused gaming content, is pleased to announce its interim results for the six months to 30 June 2022 (the "Period" or "H1'22").

Financial highlights:

	H1 2022	H1 2021	Change
	£m	£m	%
Revenue (Content licensing)	6.4	4.1	+57%
Revenue (Brand licensing) *	0.3	1.7	-82%
Revenue (Social)	1.8	1.9	-7%
Total revenue	8.5	7.7	+10%
EBITDA before share option and related charges	3.5	3.1	+12%
EBITDA	3.3	2.7	+25%
Profit before tax	1.3	0.8	+66%

* Brand licensing revenue decreased due to a significant, non-recurring deal positively impacting revenues in H1 2021.

- Total revenue grew 10% from £7.7m in H1'21 to £8.5m in H1'22. Group EBITDA grew 12% to £3.5m² (H1'21: £3.1m), representing a 41% EBITDA margin (H1'21: 40%). Excluding brand licensing, revenue grew 36% from £6.0m in H1'21 to £8.2m in H1'22
- Total licensing revenues grew 15% to £6.7m (H1'21: £5.8m), with content licensing revenue up 57% to £6.4m (H1'21: £4.1m)
- Revenues from North America of £4.7m representing 55% of total revenue

- Social revenue decreased 7% to £1.8m (H1'21: £1.9m), but with a reduction in related expenses, this segment increased its EBITDA by 13%
- Profit before tax increased 66% to £1.3m (H1'21: £0.8m)

Operational highlights:

- Granted Online Gaming Service Supplier License in Connecticut with launch expected in Q4'22
- Granting of iGaming Supplier License in Ontario and subsequent launch with 8 operators
- Launched in additional regulated markets in Spain and Denmark
- Launched Slingo content with WLA member Loto-Quebec
- Launched games distribution business with 4ThePlayer in New Jersey
- Released 8 new games into the market, including *Slingo Shark Week* and *Slingo DaVinci Diamonds*. The Group now has 61 games in its portfolio (Dec'21: 53 games, Jun'21: 48 games)

Post period-end:

- Licensing revenue increased 53% in the two months post period-end compared to the same period in 2021
- Launched Betway and Pokerstars in Europe
- Released two new Slingo games: *Slingo Stampede* and *Slingo Stinkin' Rich*

Outlook for FY22:

Gaming Realms has continued to progress during the first half of the year, with its core strategy of developing and licensing games globally to market-leading brands and operators delivering high margin revenues.

This growth is expected to continue into the second half of the year as the Company matures in its key markets. In addition, the Group is aiming to launch in Connecticut, Portugal and Greece, as well as forecasting growth from the recently launched markets of Michigan, Pennsylvania, Ontario, Spain and the Netherlands.

The European market continues to be the largest contributor to content licensing revenues and, with the launch of 8 games plus entry into new regulated markets, has grown 19% period on period. We have more direct integrations with partners, which improves margins and strengthens these relationships.

Our revenues from North American content licensing have increased 160% period on period, with the region accounting for 45% of content licensing revenue. New Jersey continues to be our leading market, but Pennsylvania and Michigan are growing strongly as we launch more games with new partners. At 30 June 2022, we were live with 7 games in Pennsylvania across 6 partners and 17 games across 7 partners in Michigan.

In total we have launched with 26 partners in H1 2022 (H1'21: 11). This growth is supported by the launch of premium games, including *Slingo Shark Week* and *Slingo Da Vinci Diamonds*. We are continuing to invest in our remote game server and in the period launched our aggregation business in New Jersey with 4ThePlayer.

The Group is continuing to deliver on its clear strategy, expanding into new markets and launching content which is proving popular with players. It has a strong pipeline of deals and integrations and the Board expects trading for FY'22 to be in line with market expectations.

Commenting on the first half performance, Michael Buckley, Executive Chairman, said:

"The Group has delivered another period of strong growth supported by our ongoing expansion into newly regulated markets in North America and Europe, with content licensing revenue increasing by 57%. Whilst brand licensing declined in the period under review, as a result of the significant contract in last year's comparative period, this was more than made up by increased income from our core content licensing. The growth in licensing income has continued into the second half of this

year, with licensing revenues for July and August 2022 being 53% higher than the comparative months in 2021.

"We have also continued to expand on our existing partnerships, adding new content through our direct integration agreements, as well as signing new licensing deals and launching a series of new games.

"Whilst we are mindful of the impact of higher inflation throughout global markets, the outlook for the Group remains positive. The Group has a strong new business pipeline and will also see additional revenues coming from North America, as well as from the new market entries in Europe. As such we expect to deliver on market expectations for the full year."

An analyst briefing will be held virtually at 9:30am today. To attend, please contact Yellow Jersey on gamingrealms@yellowjerseypr.com.

The Company also notes that it will be hosting an online presentation to retail investors on Friday 23rd September at 1pm. Those wishing to join the presentation are requested to register via the following link: [Meeting Registration](#).

Enquiries

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Business review

The Group delivered overall revenue growth of 10% to £8.5m (H1'21: £7.7m), driven by the Group's core content licensing business. Total expenses increased 2%, which resulted in a 25% increase in total EBITDA generated across the Group to £3.3m (H1'21: £2.7m).

The Group recorded a profit before tax for the period of £1.3m, a 66% increase on the same period in 2021.

Licensing

Licensing segment revenues increased 15% to £6.7m (H1'21: £5.8m), which is broken down as:

- Content licensing revenue growth of 57% to £6.4m (H1'21: £4.1m); and
- Brand licensing revenue reduced 82% to £0.3m (H1'21: £1.7m).

The segment delivered £3.6m EBITDA in the period, an 8% overall uplift over the £3.4m in H1'21.

Content licensing

The core focus of the Group remains delivering growth in the content licensing business. Continued growth in the games portfolio and increasing the distribution footprint to an increased number of operators in Europe and North America underpins the current period's performance.

During the period, the Group began operating with partners in three additional regulated markets, Ontario, Spain and Denmark. Outside of going live with partners in these newly entered markets, we also went live with a further 18 partners during the period in existing markets in Europe and North America.

An additional 8 new Slingo games were released to the market during the period, bringing the Group's games portfolio to 61 games at the period end (H1'21: 48 games).

This all resulted in a 57% increase in content licensing revenues to £6.4m (H1'21: £4.1m).

Brand licensing

Revenues from the Group's brand licensing activities, which are non-core, fell 82% to £0.3m (H1'21: £1.7m). This is a result of a significant brand deal completed in the comparative period which did not repeat in the period.

Social

Revenues in the Group's social publishing business reduced 7% to £1.8m in the period (H1'21: £1.9m) as a result of a reduction in marketing during the period.

However, with total segment expenses (excluding share option and related charges) reducing by 16% to £1.1m (H1'21: £1.3m), the segment actually delivered EBITDA growth of 13% to £0.7m (H1'21: £0.6m).

The reduction in total segmental expenses comprises a 21% fall in operating costs, which are largely revenue driven, and a 99% reduction in marketing costs from the previous period.

Cashflow and balance sheet

The Group's cash balance at 30 June 2022 was £4.0m, a reduction of £0.4m from the £4.4m reported at 31 December 2021.

The current period fall in cash was largely driven by the £2.0m cash inflow from operations, offset by £2.1m development costs capitalised during the period and £0.2m acquisition of tangible and intangible assets.

Subsequent to the period end, the cash balance increased to £4.6m at 31 August 2022, with negative working capital movements in the first half of the year reversing.

The Group has a convertible loan of £3.0m owed to Gamesys Group plc (see Note 11), due for repayment in December 2022.

Net assets totalled £16.1m (31 December 2021: £13.1m).

Consolidated statement of comprehensive income for the 6 months ended 30 June 2022

		6M	6M
		30 June 2022	30 June 2021
		Unaudited	Unaudited
	Note	£	£
Revenue	2	8,507,887	7,745,982
Marketing expenses		(53,274)	(207,428)
Operating expenses		(1,179,301)	(1,185,859)
Administrative expenses		(3,795,212)	(3,256,425)

Share option and related charges	10	(162,819)	(442,571)
EBITDA	2	3,317,281	2,653,699
Amortisation of intangible assets	6	(1,752,572)	(1,461,832)
Depreciation of property, plant and equipment	5	(124,071)	(97,282)
Finance expense	3	(117,769)	(302,221)
Finance income	3	13,038	11,564
Profit before tax		1,335,907	803,928
Tax credit		44,719	38,347
Profit for the period		1,380,626	842,275
Other comprehensive income			
<i>Items that will or may be reclassified to profit or loss:</i>			
Exchange gain / (loss) arising on translation of foreign operations		713,266	(84,998)
Total other comprehensive income		713,266	(84,998)
Total comprehensive income		2,093,892	757,277
Profit / (loss) attributable to:			
Owners of the parent		1,380,626	843,833
Non-controlling interest		-	(1,558)
		1,380,626	842,275
Total comprehensive income attributable to:			
Owners of the parent		2,093,892	758,835
Non-controlling interest		-	(1,558)
		2,093,892	757,277
Earnings per share		Pence	Pence
Basic	4	0.47	0.29
Diluted	4	0.46	0.28

**Consolidated statement of financial position
as at 30 June 2022**

		30 June 2022	31 December 2021
		Unaudited	Audited
Note	£	£	£
Non-current assets			

Intangible assets	6	12,930,360	11,815,598
Property, plant and equipment	5	464,250	484,578
Other assets		138,798	150,646
		13,533,408	12,450,822
Current assets			
Trade and other receivables	7	4,680,813	3,260,687
Cash and cash equivalents		3,995,382	4,412,375
		8,676,195	7,673,062
Total assets		22,209,603	20,123,884
Current liabilities			
Trade and other payables	8	2,138,487	2,241,114
Lease liabilities		157,794	172,887
Other creditors	11	2,950,901	3,489,278
Derivative liabilities	11	638,000	744,000
		5,885,182	6,647,279
Non-current liabilities			
Deferred tax liability		153,034	199,876
Lease liabilities		95,886	168,227
		248,920	368,103
Total liabilities		6,134,102	7,015,382
Net assets		16,075,501	13,108,502
Equity			
Share capital	9	29,200,676	28,970,262
Share premium		87,653,774	87,370,856
Merger reserve		(67,673,657)	(67,673,657)
Foreign exchange reserve		2,131,535	1,418,269
Retained earnings		(35,236,827)	(36,977,228)
Total equity		16,075,501	13,108,502

Consolidated statement of cash flows for the 6 months ended 30 June 2021

		30 June 2022 Unaudited £	30 June 2021 Unaudited £
Cash flows from operating activities			
Profit for the period		1,380,626	842,275
<i>Adjustments for:</i>			
Depreciation of property, plant and equipment	5	124,071	97,282
Amortisation of intangible fixed assets	6	1,752,572	1,461,832
Finance income	3	(13,038)	(11,564)
Finance expense	3	117,769	302,221
Loss on disposal of property, plant and equipment		-	578
Income tax credit		(44,719)	(38,347)
Exchange differences		5,413	29,803
Share based payment expense	10	253,775	271,859
Increase in trade and other receivables		(1,427,075)	(877,939)
(Decrease) / increase in trade and other payables		(145,627)	185,621
Decrease in other assets		11,848	-
Net cash flows from operating activities		2,015,615	2,263,621
Investing activities			
Acquisition of property, plant and equipment	5	(99,376)	(119,847)
Acquisition of intangible assets	6	(83,143)	(98,473)

Capitalised development costs	6	(2,088,552)	(1,614,370)
Proceeds from the sale of other investments		-	362,435
Finance lease asset - sublease receipts		-	78,840
Net cash used in investing activities		(2,271,071)	(1,391,415)
Financing activities			
Receipt of deferred consideration		-	972,554
IFRS 16 lease payments		(103,282)	(203,878)
Issue of share capital on exercise of options	9	13,332	318,221
Interest paid		(99,393)	(105,218)
Net cash (used in) / from financing activities		(189,343)	981,679
Net (decrease) / increase in cash and cash equivalents		(444,799)	1,853,885
Cash and cash equivalents at beginning of period		4,412,375	2,105,167
Exchange gain / (loss) on cash and cash equivalents		27,806	(35,417)
Cash and cash equivalents at end of period		3,995,382	3,923,635

**Consolidated statement of changes in equity
for the 6 months ended 30 June 2022**

	Share capital £	Share premium £	Merger reserve £	Foreign Exchange Reserve £	Retained earnings £	Total to equity holders of parents £
1 January 2021	28,664,731	87,258,166	(67,673,657)	1,379,116	(38,768,257)	10,860,099
Profit for the period	-	-	-	-	843,833	843,833
Other comprehensive income	-	-	-	(84,998)	-	(84,998)
Total comprehensive income for the period	-	-	-	(84,998)	843,833	758,835
Contributions by and distributions to owners						
Share-based payment on share options (Note 10)	-	-	-	-	271,859	271,859
Exercise of options (Note 9)	205,531	112,690	-	-	-	318,221
30 June 2021 (unaudited)	28,870,262	87,370,856	(67,673,657)	1,294,118	(37,652,565)	12,209,014
1 January 2022						
1 January 2022	28,970,262	87,370,856	(67,673,657)	1,418,269	(36,977,228)	13,108,502
Profit for the period	-	-	-	-	1,380,626	1,380,626
Other comprehensive income	-	-	-	713,266	-	713,266
Total comprehensive income for the period	-	-	-	713,266	1,380,626	2,093,892
Contributions by and distributions to owners						
Share-based payment on share options (Note 10)	-	-	-	-	253,775	253,775
Exercise of options (Note 9)	13,332	-	-	-	-	13,332
Conversion of loan (Note 11)	217,082	282,918	-	-	106,000	606,000
30 June 2022 (unaudited)	29,200,676	87,653,774	(67,673,657)	2,131,535	(35,236,827)	16,075,501

**Notes forming part of the consolidated financial statements
For the 6 months ended 30 June 2022**

1. Accounting policies

General Information

Gaming Realms plc ("the Company") and its subsidiaries (together "the Group").

The Company is admitted to trading on AIM of the London Stock Exchange. It is incorporated and domiciled in the UK. The address of its registered office is Two Valentine Place, London, SE18QH.

The results for the six months ended 30 June 2022 and 30 June 2021 are unaudited.

Basis of preparation

The financial information for the year ended 31 December 2021 included in these financial statements does not constitute the full statutory accounts for that year. The Annual Report and Financial Statements for 2021 have been filed with the Registrar of Companies. The Independent Auditors' Report on the Annual Report and Financial Statement for 2021 was unqualified, did not draw attention to any matters by way of emphasis, and did not contain a statement under 498(2) or 498(3) of the Companies Act 2006.

This interim report, which has neither been audited nor reviewed by independent auditors, was approved by the board of directors on 19 September 2022. The financial information in this interim report has been prepared in accordance with UK adopted international accounting standards. The accounting policies applied by the Group in this financial information are the same as those applied by the Group in its financial statements for the year ended 31 December 2021 and which will form the basis of the 2022 financial statements.

The consolidated financial statements are presented in Sterling.

Going concern

The Group meets its day-to-day working capital requirements from the cash flows generated by its trading activities and its available cash resources.

The Group prepares cash flow forecasts and re-forecasts at least bi-annually as part of the business planning process.

The Directors have reviewed forecast cash flows for the period to December 2024, which include the potential repayment of the convertible loan in December 2022 (see Note 11), and consider that the Group will have sufficient cash resources available to meet its liabilities as they fall due.

Accordingly, these financial statements have been prepared on the basis of accounting principles applicable to a going concern, which assumes that the Group will realise its assets and discharge its liabilities in the normal course of business.

EBITDA

EBITDA is a non-GAAP company specific measure defined as profit or loss before tax adjusted for finance income and expense, depreciation and amortisation. EBITDA is considered to be a key performance measure by the Directors as it serves as an indicator of financial performance.

2. Segment information

The Board is the Group's chief operating decision-maker. Management has determined the operating segments based on the information reviewed by the Board for the purposes of allocating resources and assessing performance.

The Group has two reportable segments.

- Licensing - B2B brand and content licensing to partners in the US and Europe; and
- Social publishing - provides B2C freemium games to the US and Europe.

Revenue

The Group has disaggregated revenue into various categories in the following table which is intended to:

- Depict how the nature, amount, timing and uncertainty of revenue and cash flows are affected by economic date; and
- Enable users to understand the relationship with revenue segment information provided below.

	Licensing	publishing	Other	Total
H1 2022 revenue	£	£	£	£
Primary geographical markets				
UK, including Channel Islands	411,529	-	11,000	422,529
USA	2,857,929	1,788,722	-	4,646,651
Isle of Man	359,662	-	-	359,662
Malta	1,224,280	-	-	1,224,280
Gibraltar	1,208,956	-	-	1,208,956
Rest of the World	645,809	-	-	645,809
	6,708,165	1,788,722	11,000	8,507,887

Contract counterparties				
Direct to consumers (B2C)	-	1,788,722	-	1,788,722
B2B	6,708,165	-	11,000	6,719,165
	6,708,165	1,788,722	11,000	8,507,887

Timing of transfer of goods and services				
Point in time	6,708,165	1,788,722	11,000	8,507,887
Over time	-	-	-	-
	6,708,165	1,788,722	11,000	8,507,887

	Social			Total
	Licensing	publishing	Other	Total
H1 2021 revenue	£	£	£	£
Primary geographical markets				
UK, including Channel Islands	381,898	-	-	381,898
USA	2,533,481	1,930,171	-	4,463,652
Isle of Man	1,228,087	-	-	1,228,087
Malta	981,951	-	-	981,951
Gibraltar	249,143	-	-	249,143
Rest of the World	441,251	-	-	441,251
	5,815,811	1,930,171	-	7,745,982

Contract counterparties				
Direct to consumers (B2C)	-	1,930,171	-	1,930,171
B2B	5,815,811	-	-	5,815,811
	5,815,811	1,930,171	-	7,745,982

Timing of transfer of goods and services				
Point in time	5,735,657	1,930,171	-	7,665,828
Over time	80,154	-	-	80,154
	5,815,811	1,930,171	-	7,745,982

EBITDA

	Social			Total
	Licensing	publishing	Head Office	Total
H1 2022	£	£	£	£
Revenue	6,708,165	1,788,722	11,000	8,507,887

Marketing expense	(13,081)	(2,063)	(38,130)	(53,274)
Operating expense	(721,757)	(457,544)	-	(1,179,301)
Administrative expense	(2,256,069)	(646,386)	(892,757)	(3,795,212)
Share option and related charges	(77,067)	(855)	(84,897)	(162,819)
EBITDA	3,640,191	681,874	(1,004,784)	3,317,281

	Licensing	Social publishing	Head Office	Total
H1 2021	£	£	£	£
Revenue	5,815,811	1,930,171	-	7,745,982
Marketing expense	(12,389)	(157,862)	(37,177)	(207,428)
Operating expense	(606,247)	(579,612)	-	(1,185,859)
Administrative expense	(1,741,832)	(583,265)	(931,328)	(3,256,425)
Share option and related charges	(85,401)	(4,745)	(352,425)	(442,571)
EBITDA	3,369,942	604,687	(1,320,930)	2,653,699

3. Finance income and expense

	6M 30 June 2022	6M 30 June 2021
	£	£
Finance income		
Interest received	-	6,306
Interest income on unwind of deferred income	13,038	-
Interest income on finance lease asset	-	5,258
Total finance income	13,038	11,564
Finance expense		
Bank interest paid	9,519	8,743
Fair value loss on other investments	-	38,856
Effective interest on other creditor	94,497	228,575
Interest expense on lease liability	13,753	26,047
Total finance expense	117,769	302,221

4. Earnings per share

Basic earnings per share is calculated by dividing the result attributable to ordinary shareholders by the weighted average number of shares in issue during the period. The calculation of diluted EPS is based on the result attributable to ordinary shareholders and weighted average number of ordinary shares outstanding after adjustment for the effects of all dilutive potential ordinary shares. The Group's potentially dilutive securities consist of share options and a convertible loan (see Note 11). The convertible loan is anti-dilutive and so is ignored in calculating diluted EPS.

	6M 30 June 2022	6M 30 June 2021
	£	£
Profit after tax attributable to the owners of the parent Company	1,380,626	843,833
	Number	Number
<i>Denominator - basic</i>		
Weighted average number of ordinary shares	291,309,072	288,157,560
<i>Denominator - diluted</i>		
Weighted average number of ordinary shares	291,309,072	288,157,560
Weighted average number of option shares	7,442,107	12,332,327
Weighted average number of shares	298,751,179	300,489,887
	Pence	Pence
Basic earnings per share	0.47	0.29
Diluted earnings per share	0.46	0.28

5. Property, plant and equipment

	ROU lease assets	Leasehold improvements	Computers and related equipment	Office furniture and equipment	Total
	£	£	£	£	£
Cost					
At 1 January 2022	771,690	62,835	311,325	63,609	1,209,459
Additions	-	-	98,049	1,327	99,376
Disposals	-	-	-	-	-
Exchange differences	10,614	590	8,366	3,856	23,426
At 30 June 2022	782,304	63,425	417,740	68,792	1,332,261
Accumulated depreciation and impairment					
At 1 January 2022	457,574	32,555	179,656	55,096	724,881
Depreciation charge	75,851	6,718	37,337	4,165	124,071
Disposals	-	-	-	-	-
Exchange differences	8,916	496	6,212	3,435	19,059
At 30 June 2022	542,341	39,769	223,205	62,696	868,011
Net book value					
At 31 December 2021	314,116	30,280	131,669	8,513	484,578
At 30 June 2022	239,963	23,656	194,535	6,096	464,250

6. Intangible assets

	Customer database	Software	Development costs	Licenses	Domain names	Intellectual Property	Total
Goodwill							

	£	£	£	£	£	£	£	£
Cost								
At 1								
January	6,673,924	1,490,536	1,262,416	17,470,157	247,322	8,874	5,844,747	32,997,976
2022								
Additions	-	-	54,229	2,088,552	28,914	-	-	2,171,695
Exchange differences	677,911	165,041	133,003	54,241	309	985	649,699	1,681,189
At 30 June 2022	7,351,835	1,655,577	1,449,648	19,612,950	276,545	9,859	6,494,446	36,850,860

Accumulated amortisation and impairment

At 1								
January	1,650,000	1,490,536	1,218,108	12,102,389	43,469	8,874	4,669,002	21,182,378
2022								
Amortisation charge	-	-	28,052	1,310,340	33,558	-	380,622	1,752,572
Exchange differences	127,503	165,041	133,003	14,398	-	985	544,620	985,550
At 30 June 2022	1,777,503	1,655,577	1,379,163	13,427,127	77,027	9,859	5,594,244	23,920,500

Net book value

At 31								
December	5,023,924	-	44,308	5,367,768	203,853	-	1,175,745	11,815,598
2021								
At 30 June 2022	5,574,332	-	70,485	6,185,823	199,518	-	900,202	12,930,360

7. Trade and other receivables

	30 June 2022 £	31 December 2021 £
Trade receivables	2,666,693	1,372,749
Other receivables	31,280	41,957
Tax and social security	569,065	394,749
Prepayments and accrued income	1,413,775	1,451,232
	4,680,813	3,260,687

All amounts shown fall due for payment within one year.

8. Trade and other payables

	30 June 2022 £	31 December 2021 £
Trade payables	633,140	531,939
Other payables	114,638	158,726
Tax and social security	274,052	236,491
Accruals	1,116,657	1,313,958
	2,138,487	2,241,114

The carrying value of trade and other payables classified as financial liabilities measured at amortised cost approximates fair value.

9. Share capital

	30 June 2022	30 June 2022	31 December 2021	31 December 2021
Ordinary shares	Number	£	Number	£
Ordinary shares of 10 pence each	292,006,775	29,200,676	289,702,626	28,970,262

The increase of 2,304,149 ordinary shares relates to (i) the exercise of share options during the period and (ii) the £500,000 partial conversion of the convertible loan (see Note 11). The changes in share capital and share premium as a result of these events is shown below.

	Share option exercises £	Loan conversion £	Total £
Share capital	13,332	217,082	230,414
Share premium	-	282,918	282,918
	13,332	500,000	513,332

10. Share based payments

The share option and related charges income statement expense comprises:

	6M 30 June 2022 £	6M 30 June 2021 £
IFRS 2 share-based payment charge	253,775	271,859
Direct taxes related to share options	(90,956)	170,712
	162,819	442,571

IFRS 2 (Share-based payments) requires that the fair value of equity settled transactions are calculated and systematically charged to the statement of comprehensive income over the vesting period. The total fair value that was charged to the income statement in the period in relation to equity-settled share-based payments was £253,775 (H1 2021: £271,859).

Where individual EMI thresholds are exceeded or when unapproved share options are exercised by overseas employees, the Group is subject to employer taxes payable on the taxable gain on exercise. Since these taxes are directly related to outstanding share options, the income statement charge has been included within share option and related charges. The Group uses its closing share price at the reporting date to calculate such taxes to accrue. The tax related income statement credit for the period was £90,956 (H1 2021: £170,712 charge).

On 6 January 2022, the following share options were granted:

- The Group's 2 Executive Directors were granted 2,000,000 share options with an exercise price of 32.5 pence per share. The options lapse on the 3rd anniversary of grant and vest upon certain non-market-based conditions.
- The Group's 2 Executive Directors and certain employees were granted 1,900,000 share options, which vest in three equal tranches on 15 October 2022, 15 October 2023 and 15 October 2024. The options all have an exercise price of 32.5 pence per share.

11. Arrangement with Gamesys Group plc

In December 2017 the Group entered into a complex transaction with Gamesys Group plc and Group companies (together 'Gamesys Group'). The transaction includes a £3.5m secured convertible loan agreement alongside a 10-year framework services agreement for the supply of various real money services. Under the framework services agreement the first £3.5m of services are provided free of charge within the first 5 years.

The convertible loan has a duration of 5 years and carried interest at 3-month LIBOR plus 5.5%, which has been updated to a fixed 5.75% following cessation of LIBOR on 31 December 2021. It is secured over the Group's Slingo assets and business. At any time after the first year, Gamesys Group plc may elect to convert all or part of the principal amount into ordinary shares of Gaming Realms plc at a discount of 20% to the share price prevailing at the time of conversion. To the extent that the price per share at conversion is lower than 10p (nominal value), then the shares can be converted at nominal value with a cash payment equal to the aggregate value of the convertible loan outstanding multiplied by the shortfall on nominal value payable to Gamesys Group plc. Under this arrangement the maximum dilution to Gaming Realms shareholders will be approximately 11% assuming the convertible loan is converted in full.

The option violates the fixed-for-fixed criteria for equity classification as the number of shares is variable and as a result is classified as a liability.

The fair value of the conversion feature is determined each reporting date with changes recognised in profit or loss. The initial fair value was £0.6m based on a probability assessment of conversion and future share price. This is a level 3 valuation as defined by IFRS 13. The fair value as at 30 June 2022 was £0.7m (31 December 2021: £0.7m) based on revised probabilities of when and if the option will be exercised. The key inputs into the valuation model included timing of exercise by the counterparty (based on a probability assessment) and the share price.

The initial fair value of the host debt was calculated as £2.7m, being the present value of expected future cash outflows. The initial rate used to discount future cash flows was 14.1%, being the Group's incremental borrowing rate. The rate was calculated by reference to the Group's cost of equity in the absence of reliable alternative evidence of the Group's cost of borrowing given it is predominantly equity funded. Expected cash flows are based on the directors' judgement that a change in control event would not occur. Subsequently the loan is carried at amortised cost.

The residual £0.2m of proceeds were allocated to the obligation of provide free services.

On 23 February 2022, Bally's Corporation (owner of Gamesys Group) exercised their option to convert £500,000 of the £3,500,000 convertible loan. The issue of 2,170,817 new ordinary shares to satisfy the conversion resulted in an increase in share capital of £217,082 and share premium of £282,918. As a result of the conversion, a £106,000 reclassification from the fair value of the derivative liability into retained earnings was made, being the 14.29% portion of the total loan converted.

Following conversion, the principal convertible loan balance is £3,000,000.

	Fair value of debt host £	Obligation to provide free services £	Fair value of derivative Liability £	Total £
At 1 January 2022	3,429,278	60,000	744,000	4,233,278
Utilisation of free services	-	(43,000)	-	(43,000)
Conversion of loan	(500,000)	-	(106,000)	(606,000)
Effective interest	94,497	-	-	94,497
Interest paid	(89,874)	-	-	(89,874)
At 30 June 2022	2,933,901	17,000	638,000	3,588,901

12. Related party transactions

Jim Ryan is a Non-Executive Director of the Company and the CEO of Pala Interactive, which has a real-money online casino and bingo site in New Jersey. During the period, total license fees earned by the Group were \$10,401 (H1 2021: \$24,862)

with \$940 due at 30 June 2022 (30 June 2021: \$12,668). Towards the end of the period the Group began distributing its content to certain North American partners via Pala's B2B platform distribution network, with platform fees of \$108 being incurred (H1'21: \$Nil) which were all owed at the period end (30 June 2021: \$Nil).

Jim Ryan is a Director of Bally's Corporation ("Bally's") and was previously a Non-Executive Director of Gamesys Group prior to its acquisition by Bally's. In December 2017 the Group entered into a 10-year framework services agreement and a 5-year convertible loan agreement for £3.5m with Gamesys Group plc (see Note 11).

During the period £75,000 (H1 2021: £75,000) of consulting fees were paid to Dawnglen Finance Limited, a company controlled by Michael Buckley. No amounts were owed at 30 June 2022 (30 June 2021: £Nil).

[1] EBITDA is profit before interest, tax, depreciation and amortisation expenses and is a non-GAAP measure. The Group uses EBITDA to comment on its financial performance.

[2] EBITDA before share option and related charges is also discussed above which is EBITDA with the share option and related charge in the income statement added back on the basis it is a material non-cash charge.



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