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**Raketech**

Q2 2021



## Prepared Remarks

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Good morning, everyone. Welcome to Reykdalek's 2021 Q2 Presentation. My name is Oscar Milberg. I'm the Group CEO and our Group CFO, Mans Smallbourne and I will today walk you through the highlights of Raetec's Q2 report. But before we do so, let's have a quick look at today's agenda and that's on Slide 3.



So we'll start by going through key numbers and main events, and this is during the highlights section. As you might know already, we have had some significant events regards to M and A during the quarter, and I've therefore included a specific slide about that in this section as well. Mans will, as always, then do a deep dive into our financial details before I finally wrap things up and open up for questions. Let's move to Slide 4. So here we have the financial highlights And as you can see, our strong momentum that was carried over from Q4 into Q1 continued also into Q2.



We managed to beat the all time high revenue record set for Q4 of last year and our revenues amounted to €8,800,000 for the 2nd quarter. This is, as you can see in the top left box, equivalent to a 25% year over year growth and 6% compared to previous quarter. On a general level, our operational performance continued to be stable with no major shifts in terms of product mix or regional distribution. Our network sales continued its strong progression, which significantly contributed to our strong organic growth, which in turn amounted to 25.7%, slightly above our overall growth. The fact that our organic growth was higher than our company growth year over year is simply relating to the include the divestment of the finance vertical late last year, which skews the comparison a little.



And as anticipated by the end of the quarter, that is late due, we experienced a significant uplift in sports related traffic with primarily our TV Sports Guide asset growing very strong. Our EBITDA grew by just over 20% year over year and ended at SEK 3,400,000 for the quarter. This equals a margin just shy of 39%, which is in line with previous quarter. Our NDC intake, new depositing customer studies amounted to 35,000, which is a decline both compared to previous quarter as well as previous year. However, as we have mentioned before, the NDC KPI is becoming less and less relevant to look at as the performance metrics simply because different markets behave fundamentally different.



Mans will elaborate a little more on this in the financial section in just a few minutes. And speaking about different markets and product mix, our July revenues landed at EUR 2,900,000, which is strong, furthermore, as a result of a slight change in product mix, our EBITDA margin came in at 43%, which is considerably higher than previous quarters Magnus. This is due to slightly larger share of high margin affiliation revenues compared to lower margin network revenues, which is very much in line with what we have explained before that the EBITDA margin in the short term will be very much dependent on the mix between network revenues and the more traditional affiliation of media revenues. And in July, our German network revenues declined as a direct effect the German Interstate Treaty implemented on July 1. This at the same time as other assets like Casino Fibre was shown strong numbers.



This resulted in a slightly changed product mix, consequently affecting our margin in a positive direction. Long term, we use our financial goals to guide us, in the short term, we make sure we are opportunistic and optimize earnings, which in practice means that we might decide to increase network revenues there is an opportunity to increase earnings, even if that in the short term would lower the EBITDA margin in terms of percentage. All in all, I'm happy with Q2 and Q3 has gotten us off to a good start so far. Next slide please, and that's Slide 5. Thank you.



So here are some operational highlights. Besides beating our previous revenue record, we furthermore managed to reach an all time high with regards to non Nordic revenues during the quarter. With that said, I want to point out that we strongly believe in the Nordics, with Sweden in particular, but to mitigate risks as well as going for growth opportunities, it is strategically important that we have a wide geographical footprint. Last year in Q2, we had 19% of revenues from outside of the Nordics compared to 39% of this year, which is, as I just mentioned, a new record. During the quarter, the euros took up much of the organization's focus.



And one thing that I wish to mention relating to this is our first free to play product, which we launched just before the championships. We rolled it out as a plug in product on the TV Sports Guide, where we offered users to predict championship winners and game results. The competition was completely free to play, but it had a substantial price pool, both for the championships and on a daily basis, to be clear, we are still experimenting. And with this particular experiment, we wanted to test our ability to use existing assets to cross promote new products, the users' appetite to such a product and of course, our ability to monetize non structured products. As mentioned before, we believe that it will be over time more and more important specifically on regulated markets to also offer assets that engage the user rather than only attract new users.



For competitive reasons, I'm, however, not going to share any more details with regards to the free to play product at this point. I can tell you this much, the results were encouraging, and we will continue our efforts. On another note, in July, we announced 3 significant events. First, we managed to secure and increase our revolving credit facility from EUR 10,000,000 to EUR 15,000,000. We have partnered up with Aveda Finance and will therefore be terminating our current RCF with Swedbank later on this year.



The new RCF will allow us not only to continue the set path, but also to accelerate the pace. The last two major events both include acquisitions, one being the acquisition of Q1 Media and the second being Infiniti. Besides high quality assets, access to important markets and increased sports revenues, we also strengthen our team with some really brilliant people. I have more information about the acquisitions on the next slide. So let's jump there now.



It's on Slide 6. And there's a lot of information on this slide. I will therefore try my very best to highlight what I want you to take with you. All in all, we are adding over EUR 6,000,000 worth revenues on a yearly basis with strong margins well over 60% in both cases. We get additional casino affiliation revenues, but also an even larger addition of sports revenues.



The majority coming from markets that we have pointed out as strategically important growth markets for Raytek, Spain, Italy, Portugal, but also South America in the case of Infinity and U. S. And India in the case of Q1 Media. With Q1 Media, we, however, also get minor assets on the Nordic markets on which we have identified several commercial as well as operational synergies when combined with our current portfolio. The expected return on investment is, in both cases, approximately 4 years and total consideration is EUR 13 point €5,000,000 plus €9,000,000 in shares.



The cash component will be covered by our current cash of approximately €5,000,000 in combination with our RCF. I want to take the opportunity to also highlight the share component with QM because I'm a little bit extra happy about this one, simply because it means that everyone has the exact same incentive going forward, which is the success of Raiktik as a group. For smaller acquisitions, earn out models can be perfect like in the infinite leads case, but for larger, more complex acquisitions like QM Media, where we also see large potential for operational and commercial synergies as well as future product development, shared incentives is key. In the QM case, we, for instance, believe that the Rigged Core team has much to offer as well as the commercial team by, for example, adding affiliation to the American assets where revenues today primarily stem from Pipster subscriptions. And on the other hand, RegTech has a lot to learn about local markets well as finally getting Redneck boots on the ground in the U.



S. Shared incentives furthermore makes it easier to work on product development, commercial optimization such as cross promotion of assets, etcetera, that can be more than the more typical earnout model frequently used in our industry. The most dominant assets from the 2 acquisitions are Slots Java, which is a free to play slots machine asset, PIX and Parleys, which is a tipster community and subscription service in the U. S. And online cricket betting, one of the, if not the world's largest cricket betting site, predominantly targeting India but with global potential.



Revenues from Infini Leads will be accounted for as from August and QVM as from September 15th, both will contribute positively to revenue, margins cash flow from day 1. And this includes earn outs in the case of Infinilitis. And with that said, on the next slide, I have our high level projections on how the 2 acquisitions will affect the group numbers on an overall level. Let's move to the next slide, the left Slide 7. So some high level key points explaining the commercial and strategic rationale of the 2 acquisitions.



But first, I want to also highlight that in the short term, our primary focus is to ensure we put enough resources and efforts into the integration and business development parts of the acquisitions to make them successful. And to be clear, this means that we might see slightly lower margins than the one in July short term, but with EBITDA margin then naturally increasing over time. With Infinease and Q and Media fully integrated, we estimate that the rate that group margin will increase with up to 4 percentage points, even including our low margin network sales, the market mix will, of course, as I mentioned in the beginning of the presentation, still play some role, occasionally affecting margin positively or negatively between single quarters. Our total sports share is projected to reach over 25 percent, which makes us closing in on our target of not having a single vertical representing more than 60% of Group total. And the U.



S. Share of total is projected to make up approximately 8% to 20% of Group total. Our non Nordic share will, with that I'll take another jump and we estimate it to be just over 45% of total. And if you look on the right And side of the slide, you can see 3 colored building blocks, which I have stolen from our last quarterly presentation. I have them here to visualize where we want to be by the end of the year and considering the numbers to your left and what I've talked about on previous slides today, I think we're on a very good path currently.



Now over to Mans and the financial details from the quarter. I think that's Slide 9.



Thank you, Oscar, and let's start on Slide 9, please. We have increased revenues from last quarter with 6% and ended up on an all time high. Main drivers are network sales that continued to increase from Q1 now represents roughly onefour of our total revenues. We have, however, also seen growth within affiliation and media with Sweden developing positively from Q1 with an increase of 4%. Japan as well continued to grow its share of revenues with 19% growth in the quarter.



Organic growth was 25.7% year on year, of which about 20% represents our network sales. But we also see a positive growth from our more traditional affiliation efforts with growth in Japan as well as other markets outside of Europe in combination with stable performance from the largest market Sweden. Next slide please. This slide is a comparison slide of Q2 for 2020 versus Q2 of this year, we made a split on revenues, EBITDA and net profit. And we have something similar last quarter, but the point I'm making with this slide is that we have had good growth in both revenues and EBITDA of 25% and 20%, respectively.



But similar to last quarter, our net profit is still on par with last year, and this relates exclusively to increase the amortization on our intangible assets. The increase stems primarily from recent acquisitions such as speak with public, but also following adjustments to earn outs relating to Kasumba and CasinoFaber. We strive to have a fair and prudent approach when it comes to the value of our intangible assets, which means that we have and will continue to have quite high levels of amortization. Worth pointing out, however, is that even though these costs lower our operating profit, they have no effect on our cash flow. And that's why our growth in net operating cash flow has seen a similar growth to our EBITDA as you will see in coming slides.



Next slide, please. As Oscar highlighted earlier in the presentation, there is a drop in NDC both looking at Q2 of this year versus last year, but as well compared to Q1 of this year. Compared to Q2 of last year, the biggest declining contributor is the disposal of the finance vertical. So the comparison is skewed in that regards. Last quarter, we also mentioned the effects on casino favor from the Google update.



As Oscar mentioned, it is recovering in July, but this has had an effect in the quarter compared to last year. The fact that we are also present in more regions skews the comparisons as well as markets behave differently and are priced differently. With regards to Q2 versus Q1, the seasonality effect from a slower sporting calendar in the U. S. Led to a decrease in Q2, although it was to some extent offset by a positive effect from euros.



But having said this, there is also a general declining impact as we have to some extent changed our commercial approach. We have during the last year actively sought out to reach higher value leads through fewer operators simply because it makes more commercial sense. This has as well reduced the number of trigger and triggered indices. But as I mentioned, they come with a higher value. And we're happy to see that this is going through revenue growth and it is progressing according to our expectation.



Next slide please. With regard to revenue split, there isn't a big difference from Q1 or even last year. What I can mention is that there was a bit of an upswing in flat fee sales during the euros. For the vertical split, our sports revenues were positively impacted by the euros, but the slower U. S.



Sports calendar led to a minor decrease in Kotlin for Sports. Finally, and Oscar covered this earlier, revenues outside of the Nordics have continued to increase in Q2 now totaling 39%. Next slide please. This slide illustrates the bridge between our EBITDA and net profit. The only line item of any size here is amortization, point in time durable assets.



And this one I mentioned in a previous slide. As a reminder, these are up quite a bit since last year, both through recent acquisitions, but also as we have revalued some of the earnouts. And again, the point here is that even though they are substantial, it's important to bear in mind that they are non cash affecting items. Next slide please. In our statement of financial position, we have total assets amounting to EUR 93,000,000.



There is essentially no material adjustment during the quarter. We have revalued earnouts of about SEK 1,000,000 and cash was SEK 5,500,000 at the end of the quarter. Next slide please. This slide illustrates our cash flow bridge, Q1 versus Q2 of this year. Net cash from operations, which is the sum of the 2 very first boxes in the chart amounted to SEK 3,100,000.



I have, however, broken out an annual consultancy accrual that is nonrecurring but impacting the operational cash flow for the quarter. And this is just to illustrate that the normalized cash flow from operations of SEK 3,400,000 normally is and will be close to our EBITDA. Apart from that, within our cash flow from investing activities, we have settled earn out payment of SEK1.6 million and this relates to Casinofever and Lead Republic. And since we are currently not utilizing any credit, cash flow from financing activities is minimal. Next slide, please.



This slide illustrates our margin in Q2 of this year compared to last year. Essentially, our cost base is quite similar to last year. Direct costs related to our network sales are up substantially, which is an effect of this part of the business growing significantly during the year. Apart from that, other direct costs, employee expenses and other operating costs are in absolute numbers essentially unchanged from last year. There has been a shift, however, from employees to contractors, which is an effect of our mortgage work setup, but the net effect is, as I mentioned, essentially Mil.



And the stable cost base means that as we grow in revenues, this is having a positive effect on the margin as we see proof of in July as Oscar mentioned earlier. Next slide please. So this last slide for me illustrates the margin development between Q1 to Q2 for this year. As you can see, the only real change is the effect of the continued growth in network sales, which has continued to increase in relative terms of total revenues. But again, as our other assets are experiencing growth in combination with stable other direct costs, employee costs and indirect costs, this has a positive offsetting effect on the margin.



But one point I want to make is that we did see quite a substantial increase in margin for July. We are at 43%, which represents a change in the product mix. I should point out as well that this is the adjusted EBITDA as we will have nonrecurring costs related to the recent acquisitions of about SEK 300,000 in Q3, they will impact the reported EBITDA, that are of course just one off costs. Thank you. And back to Oscar on Slide 19, please.



Thank you, Mans. That was the last slide for today. We will soon make room for questions if there are any, but first allow me to wrap things up. And let's start with the financials. We beat the record from Q4 of last year I managed to reach another all time high landing revenues at €8,800,000 for the quarter.



This represents a growth 25%, where organic growth, as a matter of fact, was even marginally higher, 25.7% year over year. EBITDA amounted to SEK 3,400,000 corresponding to a margin of close to 39%. With regards to other events and milestones, there are a few things worth mentioning. We secured new and increased funding of EUR 15,000,000 and we made 2 acquisitions. Furthermore, I'm happy as it seems as our efforts in the casino Fjallra is paying off, seeing it recover in July and our share of non Nordic revenues also beat its old record coming in on 39% of Group total compared to 19 percent last year.



And finally, following an exceptionally strong Q1, our sports heavy U. S. Revenues declined as expected quarter over quarter. Looking ahead, we can conclude July revenues of €2,900,000 However, with a slightly changed product mix due to lower network share of total, the margin took a jump and landed at 43%. In the short perspective, we will put focus on ensuring that the newly acquired businesses are well integrated.



But in parallel, we will, of course, continue our current strategy. This means investments into R and D with the purpose of diversifying geographically and product wise as well as continuous efforts within the area of M and A. Taking our continuously stable operational performance, our increased financial ability, our current growth rate and our wide geographical footprint, where we have our toes dipped into many interesting growth markets into consideration. I very much look forward to this. And those were the final words for today.



Let's move to the next slide and see if there are any questions.

## Q&A

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CEO. Currently, we just have one person in the queue. That's Erik Lindholm of Nordea. Please go ahead. Your line is open.



Yes. Hi, Oscar. Hi, Mans. Starting off on the Infinilids acquisition, how much of the revenues for Infinilids it comes from South American markets today. And is this sort of where you see the most growth coming from going forward?



Thank you.



Good morning. Good question. At the moment, it's a relatively small part coming from South Mark that's where the growth the biggest growth opportunity. So the majority of the revenues come from Portugal, Spain and Italy.



All right. Perfect. And then on the outlook for Q3 here, I guess it's fair to say that July is generally a slower month and perhaps that August September should be slightly stronger compared to you, Lai. Is that a fair assessment?



It's very hard To look into the crystal ball in that sense, but typically seasonality wise, you're right about that assumption. Potentially, one could argue that July was slightly boosted by the euros this year. That would not typically happen in the summer. But besides from that, I would say that that assumption sounds reasonably right, but it's hard to guide exactly.



Yes. Perfect. And the strong margin here in July, I mean you elaborated on this, but is it fair to assume that you expect the margin to stay on the slightly higher level throughout Q3 and maybe also in Q4 and then not taking the new M and A into account there. I think as Oscar pointed out, it can be a bit volatile considering the network revenue, so it depends a little bit on that. I think we're targeting somewhere between what we had in Q2 and what we had in July, so somewhere in between that, we can't really be more precise unfortunately.



I get that. And then so Kristina Fjeborg, it has returned after the slump in December. And then would you say that it's back to normal now and that you expect it to continue on this level? Or is there more upside here still?



It's always hard to project how it will move in the future, of course, but we're very happy with seeing that all the hard work that we've put into the asset has paid off. So we are back to where we were before the Google updates. And yes, it's very hard to guide on where it will where we'll take off from here, but of course there's potential.



Perfect. And then the QM Media acquisition. How fast do you think you can implement affiliation and the new marketing models into these assets? And And what sort of upside do you see to the current revenue run rates from doing this?



If we look at the Q and A, you're speaking about the U. S. In specifics now, I assume. Yes, I guess the U. S.



And then maybe the



cricket website as well. Yes.





If we look at the U. S. In specific with that, I think it's an interesting one. The asset, the PIX and Parleys it's predominantly the revenues is predominantly from subscriptions. And so by adding affiliation revenues, of course, there's a potentially huge upside in the long run, but it's really hard to guide on exactly how large that will be.



We project it to take roughly 3 to 6 months to get our offer rolling. But I'm super excited about it, but it's really hard to quantify at this point. Unfortunately, we'll have to get back to you on that. Perfect.



I mean, I guess you have some earnout tenants coming up here, But you're also generating quite a lot of cash. Could we perhaps see buyback selling into next year? Or is M and A still the primary way that you aim to deploy capital going forward here.



I would say that at this point, we see more opportunities to grow and generate shareholder value in that sense I intend to do buybacks. That's how we see it currently.



Great. And a final question from the sorry, a lot of questions here. But the margin guidance from the new M and A of increasing with 4 percentage points, should we interpret this as you're expecting a margin around 43% to 44% for 2022, I mean that's adjusted at the same margin. Yes, the adjusted one and exactly included in the acquisitions, right? That's what you're asking for?



Yes. All right. Yes. Yes. Then midterm after integration and so forth, we are looking at exactly what's it yes, what you're the saying, so 44, 45 plus, something like that.



But that's after integration and they're fully up and running all the acquisition. Perfect. Those were my questions. Thank you. Thank you.



Once again, if there are any further questions, please dial 1 on your telephone keypad now. Okay. It seems there's no further questions from the phone lines. I'll hand back to our speakers for the closing comments.



All right. Thank you everyone for joining the presentation today. We look forward to talking you again in connection with the Q3 report, which is in November.