

May 11, 2022

Raketech

Q1 2022



Prepared Remarks



Ladies and gentlemen, welcome to the RocketEdge AudioCast with Teleconference First Quarter 2022. For the first part of this call, all participants will be in listen only mode and afterwards, there will be a question and answer session. Today, I am pleased to present CEO, Oscar Musbosch and CFO, Manfred Sandler. Please, speakers, begin.



Thank you, operator, and good morning, and welcome, everyone, to the Raittik Q1 report for the year of 2022. This presentation has 2 main sections, followed by key takeaways. And at the end, we will, as always, make room for questions, if you have any. My name is Oscar Middeback. I'm the Group's CEO.



And with me, as always, is also Mans Svalborn, our Group CFO. Warm welcome, everyone. Let's get started. And that's on Slide 3, please. As usual, we'll start with the financial highlights, which once again contains yet another revenue record for RaikTek.



As a matter of fact, this is our 5th consecutive quarter with growth and our 4th consecutive quarter in which we deliver all time high revenues. We've had and still have solid organic growth as a base and on top of that also non organic growth on strategic markets and within strategic verticals and segments thanks to acquisitions. Total revenues came in at €12,700,000, Our EBITDA grew more than our revenues, equivalent to close to 59% year over year. Considering Q1 is a quite modest quarter in the world of online gambling, where revenues typically are lower than those of Q4 Due to seasonality and the fact that Finland has made updates to its marketing laws, which have had negative impact on our clients' appetite to invest in marketing, I'm happy with this performance. Our largest asset, Casino Verbier, has been performing slightly under our own expectations, but has to a large extent been Set by strong performance from other assets on the same market.



I think our stability can be attributed much to the fact that RigTech now has a well diversified portfolio of assets with presence on many markets around the world. This was also precisely what we aimed for when we initially set our long term strategic goals quarter on which we have delivered, and it now gives us a favorable position in which we are not as sensitive to volatility within particular markets or verticals as we were quarter only a few years ago. Looking at earnings per share. EPS, we delivered a close to 80% increase year over year corresponding year to EUR 0.05 per share. We consider this level to be our baseline from which we hope to increase over time and over quarters as we grow.



April revenues came in on the low end of our own expectations, almost entirely as a direct effect of low season for our picture advisory service in the U. S. And of course, to some extent, also due to continuous headwinds in Finland and continuous low performance for Casino Fjober. For the full year of 2022, I, however, want to take the opportunity to reiterate our guidance. Q2 is a quite modest quarter in terms of seasonality, while Q3 and Q4, on the other hand, are seasonally significantly stronger.



And with the American football season around the corner and the Football World Cup in November, we're not only looking forward to a stronger second half of the year from a seasonality perspective, quarter, but also stronger thanks to these major events. Revenues for the full year is expected to land in the span between €50,000,000 55,000,000 With an EBITDA margin between 40% 44%. At this point, we think it's reasonable to assume revenues in the higher end of this interval and margins in the lower end half of the same interval. And finally, important to point out as well, these projections do not include our latest initiative, the Affiliation Cloud, which if successful, we'll be adding revenues and EBITDA on top of these projections. I will be elaborating on the affiliation cloud in just a few minutes.



So all in all, a solid quarter with somewhat unfavorable market conditions All right. Here we have selected operational highlights. And on your right hand side, you can see that quarter, our share of total have increased to just under 35% of group total, which is exactly where we hoped it would be And something we have been actively targeting to reach during the last few years. Having a good balance between the different verticals makes us Attractive as an affiliate partner, but also lowers the risk with regards to volatility, which is common in the iGaming industry. The sports percentage of total is, with that said, naturally expected to vary between the quarters depending on the nature of every quarter, respectively.



Quarters with large sports events will naturally increase this number and vice versa. In absolute terms, sports grew with over 200% year over year, predominantly thanks to our acquisitions. And as a result of this significant sports growth, quarter. The U. S.



Was during Q1 our 2nd largest market, which is a major milestone for us. In total, the U. S. Represented 19% of group total, which is Perfect in line with what we guided it to be in our previous report. And speaking about market diversification, to your far right, you can see that our non Nordic share of total increased to over 67%.



This is also something which I'm very happy about. And as this has been On our specific agenda for some time, we have, as I mentioned on the previous slide, experienced headwinds in Finland and slight underperformance from Casino Fjerbe. But what is most important and more encouraging is that this significant increase is driven much by strong performance in other parts of the world. And on this topic, growth from the Rest of the World and the Rest of Europe was during Q1 in the span of 35% to 85% year over year for all of our 2021 acquired assets. And to accelerate growth with the help of our central operations team in acquisitions Is, as you know, an essential part of our strategy and concept.



And I'm very happy it continues to bear fruit, quarter. Adding important diversified revenues from outside of the Nordics. During the quarter, we have been doubling down on our U. S. Infrastructure with regards to organization, reporting, systems integrations, etcetera.



And I think we're now in a reasonably good place, quarter, this work will continue throughout the rest of the year. It's an investment we're making to go into this market, but it's also an investment we are super excited to make year as we expect many years of growth ahead. Furthermore, establishing operations on that side of the Atlantic is important for us quarter for future investments into other markets in the same time zone throughout North and South America. In parallel to this, we have also been Identifying synergies between our picks and parleys and recently acquired ATS acquisitions as they operate within the same space. And with regards to this, the respective team on both of these assets have done a fantastic job and managed to not only cherry pick technical solutions from one another, IGB, 2nd year in a row.



In our industry, the fight for talent is fierce. And as you know, we have embraced fully remote working strategy and it's therefore a bit extra encouraging and important for us to receive this particular award. Next slide, I think that's Slide 5. And here is something Super exciting, the Affiliation Cloud, which is a completely new product and potential future revenue stream that we have been working topic monetization while minimizing administration and maximizing site performance. It's basically an easy to use interface built on top of RigTech's proprietary tech stack where affiliates connect their assets and instantly get access to the same technology and great commercials, administration automation and BI analytics tools that we use for our own assets.



As you know, the world of iGaming is becoming more and more complex. Regulations are changing often and most operators and affiliates operate on multiple markets. Furthermore, the things you can do with data, if analyzed properly can make the difference between success and failure. The Affiliation Cloud is a single logging, easy to use interface quarter, we provide access to functions that smaller affiliates would only dream about such as data driven commercial optimization, site performance comparisons, automatic and real time revenue reporting, drag and drop KYC functionality, compliance reminders and updates and much, much more. With one single login, you can basically you basically have access to the same tools as any of Raittke's proprietary assets.



And the best part, by integrating with our commercials for top list programmatic display, etcetera, you will most certainly boost your revenues from day 1. For the operator, we significantly reduced time spent on admin such as KYC, compliance, negotiations and quality assurance. And with the click of a button, we provide access to new markets and affiliates that simply would not be possible to access without the Affiliation Cloud. The Embryo of the affiliation cloud, which we rolled out last year to operators only, was crowned the affiliate product invention of the year by SBC in Q4 of 2021. We are in the midst of rolling out the Affiliation Cloud and currently it's by invitation only.



We believe it has potential to deliver incremental annual revenues in the region of €10,000,000 or more 10% to 15% EBITDA margin within 2 years from launch. And as I just said, the launch is happening now. Let's move to Slide 6, please. Before I hand over to Mans, I want to just quickly recap On our progression with regards to 2022 tactics, the pace in which we are working has never been faster and the pipeline has never been bigger. With that said, we have several exciting growth projects either just launched, being developed or planned.



In the top left corner, we, of course, have the U. S. Which as the market is projected to grow with 35% every year over the next few years, driven predominantly by regulations and digitalization. As you might imagine, for us, it is therefore absolute key to get in as early as possible as much as we possibly can. And please remember, the absolute majority of the U. S.



Potential is ahead of us. The market is still very immature and non digital, which makes it extra exciting. During Q1, we've managed to fill almost all the roads we were looking to fill, which means we now have good coverage within all parts of the U. S. Operations, Sales, product, content and so forth.



Furthermore, we're continuing to create mechanisms to add affiliation commercials to our subscription assets. And during Q1, approximately 10% of revenues from our Pyx and Parly's asset was in fact stemming from affiliation. Very encouraging indeed and something we will keep focusing on. Looking at the left bottom square, we have increased investments into flagship assets With multiple projects currently being run across the company, furthermore, and what's perhaps more exciting is that we during Q2, Finally, we'll be integrating fully with both CasinoFjobber and Infiniti's. And for those of you who don't know, first quarter, we doubled the amount of resources to secure a successful handover.



And once handed over, we expect to see significant earnings and cash flow improvements for the group, the full positive effects expected as from Q1 2023. On your right hand side, top corner, we have the extended network offering, which essentially is the affiliation cloud I talked about on the previous slide. I have really high hopes for this, but as it's completely new, we've chosen to not give any exact projections on revenues in the short to mid term. To make it long term sustainable and successful, we believe that it's essential that it becomes a great service that both affiliates and operators appreciate, year. Which is why we're focusing on exactly this and nothing else in the short term.



And this is also how we would be able to deliver on the long term ambitions of EUR 10,000,000 worth of incremental revenues in 2 years. With those words over to Mans quarter. And the Q4 financials in detail. Next slide, please.



Thank you, Oscar. And let's start on Slide 8, please. As from this quarter, we are disclosing our split for revenues on affiliation marketing, quarter, which represents our traditional affiliation business network sales, which represent our paid media efforts And lastly, betting tips and subscription, which is our U. S. Sport acquisition through ATS Consultant first and BNP Vegas Group that was completed during H2 of last year.



As expected, affiliation marketing declined from Q4 of last year. Q1 is generally a seasonally slower quarter, and this was primarily evident for the Nordics, where we see a decline of around 15%, but quarter, we expect to see a slight increase in the year. Historically, this should then start to pick up somewhat from Q2, but more so in Q3 and then peak in Q4. Additionally, apart from seasonality effects, there were some regulatory headwinds in Finland as most of the big brands We have worked to adapt and readjust these assets. And even though we still believe this will be a challenging market, any further financial impact from what we have seen in Q1 will be limited.



With regards to other regions, Japan is essentially flat compared to Q4, which is strong considering the comparisons were very tough. Our Indian Cricket site continues to grow, Up 5% from Q4 and our efforts through Infinilids, particularly in Rest of Europe, have grown 10% from Q4. Our network sales had a stable quarter and represents in the quarter about 20% of total revenues, Which in relative terms is in line with previous quarters and in absolute term is growing with 11% from Q4 of last year. Lastly, as communicated previously, we have a positive contribution from our newly acquired U. S.



Port focused acquisition quarter, through our tailor made betting tips and subscription service. This represents 17% of total revenues in the quarter, and they have quarter, we had a good momentum in the quarter benefiting from a U. S. Sports focused quarter. Worth pointing out is that the U.



S. Sports season will enter quarter. We have a slower period in Q2 to be picked up again come Q3. Next slide, please. This slide is showcasing our revenue diversification we've achieved throughout the last year, we now have significant presence on 3 continents.



Compared to Q1 of last year, the Nordics is essentially flat. We see the majority of our Swedish assets growing organic growth, however, somewhat offset by a decline in Tasi November. And this asset will be fully transitioned to our internal resources as the earn out is coming to an end as of next year. Quarter, it's an asset we continue to see great potential with and we'll continue to invest in. The U.



S. Is during the quarter our 2nd largest market, quarter, again driven by the intense sports focused quarter, which is typical for Q1. Rest of Europe and Rest of World quarter is largely represented by our acquisition of Infinilix, Q1 Media and Kasumba. And we're extra happy that all of these assets quarter, compared to the same period of last year, grown by from 75% almost doubling revenues. And as we pointed out before, this is a great testament that our concept of adding our central expertise to recent acquired assets really does work.



As for our vertical split, we came in at a higher interval with regards to sport revenues with 34% of total revenues coming from sport. This is again driven by our U. S. Acquisition as well as good development within our cricket site and increased sports from network sales. Casino revenues have increased as well in absolute terms with, as I mentioned earlier, positive growth through Kasumba and Infinovix.



Next slide, please. Compared to Q1 of last year, there is an expected decline in number of NDCs. This decrease relates primarily to Sweden and the temporary gambling restrictions that we implemented in July 2020, In addition, we have from last year continuously actively prioritized operators that we assess generate high value leads ahead of high converting brands with low player value. This also means a lower MDC count but higher average revenue per lead. And lastly, the challenges in Finland, which have quarter resulted in a further slight decline in NDCs.



Compared to Q4 of last year, we're down 13%, quarter, similar to what I covered in our revenue development, this is largely an effect of seasonality. On the positive side, we are seeing increased MVCs from Rest of Europe. Next slide, please. With regard to our cash flow bridge, Q4 versus Q1 of this year, our net cash from operations is strong and has increased with improved profitability. Quarter, our cash conversion for this quarter was 107%, a strong outcome largely due to catch up effect from prior quarters.



Investing activities relate largely to paid earnouts for Kasumba, Kasimofebur and the deferred payment for Infiniliz during the quarter. And under financing activities, we have a smaller amount of paid interest and lease payments. Worth pointing out as well from a cash flow perspective, it's that the Leeds Republic earnout had its final payout now in May and the casino faba earnout will have its end in the beginning of 2023. Quarter, we will, as we get closer to the end of the earnout for casino favor, quantify the effect of this quarter cash flow contribution. Next slide please.



This slide illustrates quarter, our margin in Q1 compared to Q4 of last year from a cost line item perspective, we've seen an increase in direct costs relating to our network sales. This correlates with our positive revenue development within this area, but since it's a lower margin product, it lowers the group margin slightly on the hook. The increase in other direct costs and entry expenses is primarily an effect of added costs through the recent acquisition of ATS Consultants, our best vintage and subscription service, but we have also increased our headcount in the U. S. To be able to support and grow this part of the business, Having a positive effect on our margin.



As a general comment and looking ahead for primarily Q2, it's important to highlight that our U. S. Betting tips and subscription model will enter a slower seasonal period simply as the U. S. Ports will be less active in the upcoming quarter.



And even though the cost base for this operation to some extent is variable, a large part is stable and thus the EBITA margin will come down with lower revenues. We do therefore expect the group EBITDA margin to be lower for Q2. As the sports season however start to pick up through Q3 and Q4, we first quarter, we expect the EBITDA margin to bounce back and our full year guidance of an EBITDA margin of 40% to 44% does still stand. And within that interval, we at this point expect to come in towards the lower end of that spend. Thank you.



And back to Oskar on Slide 13, please.



Thank you, Mans. That was the last slide for today. But before we move on to Q and A, let me wrap things up. Financials first. Q1 revenues totaled €12,700,000 which is yet another all time high for Raytech.



Growth year over year was 63% and quarter over quarter 7.2%. Organically, we grew 6.8 percent and our EBITDA came in at €5,100,000 corresponding to a margin of just over 40%, quarter, which equals an annual EBITDA growth of 59%. With regards to other milestones and events, the U. S. Quarter.



Q1, our 2nd largest market and represented 19% of group total, in line with expectations. Our non Nordic revenues also took a jump, of course, driven by the U. S. Expansion, but also by good performance from previous acquisitions in other parts of the world. The for us so important sports share of total reached all time high with 34% of group total, which is a comfortable level in line with our own strategic ambitions.



On the negative side, we saw a decline in Finland affecting both revenues and margins, but it seems like this market has stabilized Somewhat, and we do not project additional negative effects for the rest of the year. Looking ahead, April is a slow season April, which is slow season got us off to an okay start, which then what stands out most is the slow season for the picture advisor service in the U. S, And that's ATS Advisory. And as Q2 generally is a seasonally slower quarter compared quarter Q3 and Q4, even outside of the U. S.



Fixture service, we expect margins to decline temporarily during the quarter. However, and this is important to point out, this is the 2nd bullet in the list to your right. We do reiterate our 2022 guidance once again and look forward to seeing effects from investments and a strong season during the second half of this year. Today, we also publicly launched what we call the Affiliation Cloud, which is A unique portal or a marketplace where we help external affiliates and operators to maximize their businesses by leveraging on Raittik's 1st year. The first time.



The affiliation cloud is by invitation only at this stage. But if you're an affiliate in any part of the world and you're listening to this call, Please don't hesitate to reach out, and we'll make sure to keep you in the loop. And with those words,

Q&A



The first question comes from Marlon Varnik from Nordea. Please go ahead.



Hi, Oscar, hi, Mosk.



Good morning, Malo. Lavin here.



Good morning. Perfect. So first, a question here on the Swedish market. I mean, considering the delivery saw a slight decline here in the quarter Despite the COVID-nineteen regulations listed here in mid November, can



you just dig into



a bit further what's behind this development? Have you seen any negative reopening effects here in playing activity in Sweden?



Yes. Thanks for the question. It's been a quite stable quarter, I'd say, in Sweden on a general basis. We see solid and quite good growth actually on basically all quarter in Sweden, Casino Care were left alone. So all in all, a stable performance from Sweden, but potentially With a bit of variance between Casinio Piappa and the rest of our assets in Sweden for the quarter, No major other macro effects, besides the fact that Q1 generally is a slower quarter than Q4.



Yes. Okay. And on the trading update here, I mean, I understand we enter weak season when it comes to activity levels, but trading update seems Still a bit soft here in the start of Q2. How should we view the activity trend throughout the quarter? What drop to expect comparing June 2 months Demand of LP, for example, and if you have any further comments on the Q2 EBITDA Group EBITDA margin would be appreciated.



Thank you.



Yes. Thank you. I can start and maybe Walt can comment on the EBITDA margin. So this is I understand that this is the question of interest. I would say that the start The slow start of the quarter is predominantly relating to a slow start in the U.



S. Picture service. So this is also an area which is new to us. So we're also learning about the seasonality effects. But the picture service is very much relating to the league starts and the leagues.



And during this particular time, there is a bit of a slow activity in the U. S. So that is predominantly what is having the slow start for Q2. If we look at general performance from all other assets, we're seeing solid stable performance across the line. So that is basically what is standing up.



Yes. Go ahead.





No, No, and it's really



up to 12, 2nd part of the question.



Yes. And with regards to the EBITA margin, I can't really elaborate on that a lot more than what I did in the presentation, but would you expect the EBITA margin to come down a little bit in Q2 compared to Q1? It's quarter, it's not really an effect of us increasing significantly cost base, but it's sort of a matter connected to the Expected slower seasonality effect from primarily the U. S. Side of things.



But then as I pointed out as well, we do expect Just the bounce back in Q3 and Q4.



And looking going back to Europe and Netherlands, I mean, most of the Swedish operators, Unibet, Vesta and so on, are expected to go live here in the Dutch market in the second half of twenty twenty two. I know your Dutch exposure is pretty minor today, but how do you see the growth opportunities here going forward, given the entrance of Unibet vessel and so on? And what can I expect from Holland in the medium term here?



Yes. Holland is a super interesting market, of course. I think we also discussed this During the last report in the call, it's a market that we keep close eye on, of course. But as you just Also mentioned, we don't have a significant presence in Holland. We do, however, have a few growth initiatives that we're currently running, showing good progression, but They're not significant or material to that point that we can disclose any projections on Holland for the midterm.



But of course, in the long term, Holland is a super interesting market for us. I would say that to make a significant presence in Holland, however, we would Then we're looking at long term acquisitions to enter that market rather than building something from scratch,



Thank you. The next question comes from Richard Engelberg from Eric Fencer Bank. Please go ahead.



So my first question is regarding the guidance on EBITDA margin. How do you see the gross margin develop Q1, the coming quarters.



The gross margin, we expect to be quite similar to what we've seen so quarter? That one tends to correlate quite good actually with the revenue development. So I don't see any significant changes to the gross margin.



Okay. So the downturn short term in EBITDA margin is mostly related to the cost basis spend and the revenues being a bit lower?



Exactly. So it's okay, your other operator and exploring external for your call.



Okay, Good. And my next question is regarding the Affiliation Cloud initiative. If that were to develop well and reach the long term sales target, would you consider it consider Divesting it or will it be a part of the group? That's a great question, Yes. We're so early into this initiative.



So I would have to pass on that question. I think it Serves a good purpose to keep internally, of course, because it's a way of leveraging on the We're basically squeezing out a lot of benefits of scale by doing this and also allowing others to benefit from that. It's not Unreasonable to believe that this could be something that eventually in the future someone would like to divest, but it's not part of the plan at this point.



Thank you. There is another question from Marlon Varnik from Nordea. Please go ahead.



Yes. Hi, guys. Again, Just another question here on the more long term EBITDA margin. I mean, looking beyond 2022, you have a target of 50% plus With outlook for 2022 for roughly 42%. Given that more markets are regulating U.



S, quarter. Can you just walk us through how and when we can expect you to reach the EBITDA margin target of 50% plus?



Yes. We that's an interesting observation as well. We haven't given any Actual time for that, as I said in the last report, we are maximizing the growth opportunities that we have now currently with the U. S. Opening up And the high level of digitalization.



So we have chosen not to give any specific time of that. But if you isolate The parts of our business that is the more traditional affiliation, we are running that at roughly on the financial targets, which is under 50%, Some quarters over 50%. So depending on if you would isolate that type of business. And once we get out of the investment phase, It's likely that we would reach well above that. And then in combination with the other parts, such as the network and affiliation, cloud potentially in the future, it's not unrealistic to think that we would reach 50%.



But exactly when that is, It's really hard to say, and I would rather not commit to any specific time. I think it's important for to maximize shareholder Value to really go for the growth opportunity that we have. And if that is 3 years or 5 years, it's really hard to say at this point.



Yes, clear. And just another last question from my side here. On the tipster service assets here in the U. S, Can you share any color on the exposure you have with the U. S.



Tipsters? What types of tipsters you have on your platform? Is it tilted towards NFL, hence the activity drop here in Q2 and any data here that you can share would be appreciated.



Yes. It's actually quite well spread across most sports In the U. S. But what's maybe interesting to know is that it's very High tilted towards high value players. So the biggest segment would be what In Europe, it's normally referred to as VIP players.



So players that are very committed into betting and That's a very interesting segment, something that we're also working on Trying to package and get operators in the U. S. To create tailor made offers for because they're not the Typical affiliation customer potentially going after the bonuses, but rather the service and the odds. So that's basically the favor I can give at this point.



Clear. Thank you. Thank you, Muntz. Thank you, Oscar.



Thank you. There are no further questions. Dear speakers, back to you.



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