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Raketech

Q2 2022



Prepared Remarks



Welcome to the Raytech Audio Classic Teleconference Q2 2022. For the first part of the 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 Mollbach and CFO, Mans Feldbourn. Speakers. Please begin.



Good morning, everyone, and welcome to Raiktig's Q2 report for fiscal year of 2022. My name is Oscar Milbach. I'm the Group CEO. And with me, as always, is also Mans Svalborn, our Group CFO. Mans and I are going to take turns to go through the 4 bullets on the agenda, which you can see here on your left.



Once we're done talking, we will also give you the opportunity the Q and A session at the very end. Once again, warm welcome, everyone. Let's get started. €3,000,000,000 which is about 29% more than the same period last year. As expected, this is slightly lower than the Q1 simply because Q2 is the weakest period of the year from a seasonality perspective and that most markets and operators have reported somewhat challenging market conditions.



Also this year, we met extraordinary comparison numbers considering last year had both the European championships in football as well as the COVID outbreak fueling digital industries, including the online gambling industry. To make the comparison even tougher, Finland is, as you might remember from our last presentation, lower this year due to new marketing restrictions as well as Netherlands and Germany being out of reach for our network services. And finally, now that we have such a significant share of revenues coming from the U. S. We will have to get used to seeing lower numbers in Q2 compared to Q1 simply due to the U.



S. Sports calendar. The skin leaks, which to be clear means that we are expecting revenues to pick up during the high season, which is from September to February. Skinks commercial optimization having effect on monetization and new initiatives such as the Affiliation Cloud generating incremental revenue streams. As we've said before, we are continuing to invest into the U.



S. Expansion and product development, which in combination with a reasonably fixed cost base, consequently lower the margin for the quarter to 35%. I want to point out that I'm comfortable with this margin as the investments are midst of its growth, but also as our fixed cost base is stable, which means that we expect to see significant positive effects on our margin with increased the revenue, specifically from our American assets, which at this stage in time is relatively resource intense. Cleared from network revenues and rapidi, which is a small operator brand we use for data referencing, our organic growth year over year was 3 point 4%. Looking ahead, July started comfortably with €3,900,000 in revenues, thanks to strong organic performance across the board relating to positive effects from Google's latest core update in May June.



And keeping in mind that the high season hasn't really started yet, This number does look promising. And to spice it up a bit extra, the interest for Affiliation Cloud is continuing to be high. Next slide, From the quarter compared to last year, our Sports share of total increased with 163%. This is relating to last year's acquisitions. Naturally, however, the sports share was lower than in Q1 simply due to the U.



S. Sports seasonality, as I mentioned on the previous slide. On the previous slide, I also highlighted that new regulations in Germany and the Netherlands affected our network the negatively. With this slide, I want to emphasize that we do not anticipate any more negative effects from these events going forward the slides, it of course making the annual comparison a bit tougher also during Q3 and Q4 for the network specifically. The U.



S. Revenues totaled 12% of group total, which considering the lack of major sport events, it's okay. We expect the U. S. Sports season, which is between September February, to significantly increase this number in the remaining second half of the year.



Setting Finland and the network aside, we experienced solid results across the board and saw healthy KPIs for most regions, initiatives and assets. Sweden stood out from a positive perspective with strong performance, which considering tough comparisons is giving us confidence for H2. Furthermore, I'm proud to announce that we have prolonged our RCF yet another year in term on terms that in this industry should be considered as very healthy. Call. And last but absolutely not least, we have assigned resources into the operational handover of 1 of our oldest, dearest and largest assets, Casino Fjallberg, From the founders to the talented central operations team.



The handover is planned for February of next year, but this is an important asset for us. The It's exciting from a product development perspective, but of course also from a cash flow perspective. We are expecting to see significant uplift the A significant uplift in cash flow from in cash flow generation from this asset with around €4,000,000 or more per year So you now heard me talk about all the extraordinary factors that impacted the Q2 comparison, such as the European championships in football and the COVID boost same Q2 numbers of 2021 and the strong seasonality effects in the U. S. And the German, Dutch Swedish regulations complicating things.



But to give you a bit more balanced view and to understand what things that we expect to affect us in the second half the year. I've therefore created a slide on this topic specifically, which is this one. And as you can see, I've listed 3 things. We expect to have an impact on our performance over the next 6 months. External factors such as inflation, potentially increased unemployment rates, recession or other macro factors are, Of course, taken out of this equation, if Q2 was a weak sports period, then Q3, but Potentially even more so, Q4 should be the absolute contrast to this.



We have the American football season starting in September, which typically is the most important sport for us in the U. S. The Also with the FIFA World Cup being held in November this year, we expect to see increased activity on sports related assets most sports related athletes, I should say, but maybe more so outside of the U. S. Where the football is round like a sphere.



The The second factor, the box in the middle is relating to organic growth. And here, I want to take the opportunity to clarify how we define organic growth. Once an acquisition has been with us for 12 months, we start counting potential growth as organic. We have affiliate peers the accounting organic growth as growth even on acquired assets during their 1st 12 months as well. And I've Therefore, received quite a few questions about this, which is why I want to clarify that we use the standard definition and nothing else.



And on that note, as we did acquisitions in the second half of the year and that we are seeing growth in all of these acquisitions, I'm looking forward to including their future success into the organic growth calculations. Furthermore, the positive effects from the latest Google core update positions us very well for the casino high season, which starts in September, October and continues throughout November December. The 3rd box to your very right states increased EBITDA. And thanks to our stable cost base, higher revenues Q3 and Q4, should therefore also naturally lead to higher margins during this time. With these three factors in mind, I want to reiterate our full year guidance of revenues within €50,000,000 to €55,000,000 and EBITDA margins between 40% and 44%.



The At this point, this is our best estimate, but I also want to flag that we're not going to hold back growth within lower margin segments such as the affiliation cloud if we see potential for that. Before I hand over to Mans, I also want to talk just briefly about why I think that Raitt Tech's current structure and business model is a bit extra resilient against the turbulence, but also a bit extra well positioned for long term growth. On this slide, you can see that I've included Raittag's current main business areas. For those of you who have followed us for a while, I want to clarified that the media category here is clustered together within Affiliation Marketing and that network is clustered together with revenues from Affiliation cloud in the middle bucket sub affiliation. These 3 different buckets represent 3 different dimensions of what together make up Raiktik today.



A few years back, we were an affiliation only company and the majority of our revenues were coming from the Nordics with Sweden and a handful of assets in particular. Today, we're a modern affiliation and performance marketing company offering a wide range of services and products to operators, other affiliates and to end consumers. We still have a solid footprint in the Nordics, but more than half of our revenue are now stemming from multiple the exciting growth markets around the world. To mention a few, it's India, Japan, South America, Europe and of course also the so important U. S.



Market. And to be concrete, this means that we are more resilient to sudden macroeconomic changes and that we have more growth initiatives going than we've ever had before. And as you might recall, to get to this point has been a strategic focus for us over the past few years. I'm very happy to see that it is having the desired effects in terms of continued growth and stability in an otherwise volatile world. The system over time.



If we start with the box on your left, affiliation marketing, this is our bread and butter. In this bucket, we have comparison websites, forums, review sites, SME media assets. These assets are either acquired along the way and fine tuned by RegTech or built from scratch in house. Nevertheless, every single asset requires either a few years' worth of investments and work to be successful or they need to be acquired along the way. The Once they're past their initial growth phase, they're typically around at extremely high margins at up to 80%.



Over time, we aim to grow our assets within this bucket in line with or better than the digital gambling growth on the markets where they are present. And as the digital world of online gambling so far only sense 15% to 20% of the world's total gambling. We believe that there are many years of growth ahead of us within this segment. In the middle bucket, we have sub affiliation. This is simply put when we make use of, on the one hand, our advanced technical infrastructure and data analytics.



And on the other hand, ours since long established commercial relationships with all of the global gaming operators. The We packaged this as a managed SaaS solution and allow smaller affiliates access to unique tools and simple administration interfaces and operators' the access to widespread of quality assured smaller affiliates with just one click. The same time with most operators active on multiple markets at the same time with a large number of affiliates, the lower than in the first one, but it does not require us to make any long term investments into assets, and it allows us to quickly enter new markets without making acquisitions necessarily. On the right hand side, we have what we call betting tips and advice, which is a segment we only provide in the U. S.



At the moment. We will, of course, eventually look at the opportunity to expand this outside of the U. S, but for now, the opportunity within the U. S. Is simply too big for us to risk losing focus.



Consumers pay to get advice and tailored data insights about specific games or leagues, the and they pay via subscription and in some cases also through Winshare, which simply put is bonus being paid to us when our information and advice the has led to successfully placed winning bets. Activity within this segment is very much relating to the major leagues, With September to February being the most important period, operational costs are reasonably stable, consequently leading to very low margins during low season and very high margins during high season, which is what we saw during Q2. The Within all of these segments, we, of course, have much more granular services. From an overall perspective, this is how our revenues are generated today and also the reason why we are so stable and resilient nowadays, but also in my mind a cornerstone in building a company that is long term sustainable Q2 financials in the details.



Thank you, Oskar, and let's start on Slide 8, please. As expected, we saw revenues decrease sequentially from Q1, which essentially is an effect of the U. S. Sports season, entering into the low season of the year and additionally, somewhat lower activity within network sales. Our U.



S. Focused betting kits and subscription services accounted for 9% of total revenue in Q2 compared to 17% in Q1, which is more or less in line with our expectation And as I mentioned, an expected seasonality effect. Performance from our network sales with somewhat lower activity. However, in line with the development of the markets they operate in, it represented 17% of total revenues in Q2 compared to 20% in Q1. Worth pointing out is last year was exceptionally strong in this segment as both the German and Dutch markets were still open for business ahead of Regulation within both of these markets.



Our revenues from affiliation marketing, which represents our largest revenue segment are essentially in line with Q1 of this year, which is positive considering Q2 marks slower season. We see strong performance in Sweden and Norway, positively affected by the recent Google update as well as continuously solid performance from Kasumba and our recent acquisition, Infiniliz, targeting primarily the South of Europe. So So in summary, expected seasonality effects and solid performance from our core business of Affiliation Marketing. Next slide, please. This slide illustrates our revenue diversification split on regions and verticals.



As highlighted on the previous slide, Sweden and Norway are developing positively both Q versus Q in the year over year, which means that Nordic revenues tough comparison from last year with the UEFA Euro 2020. U. S, as I mentioned, is lower as an effect of seasonality Q versus SKU. And as the last point on our region is that the decrease in rest of Europe from Q2 of last year relates, spot as I highlighted earlier, the shift of efforts within network sales from the German and Dutch markets. With regards to the sports vertical, we did expect a lower share of revenues, again, an effect of the U.



S. Sports season. We did, however, see as well a shift from casino revenues to sports revenues in network sales, which led to the CERO support revenues still above 30% of total revenues. Network sales is, however, as we mentioned before, slightly more opportunistic in its approach, which could mean this could shift slightly back and forth between the verticals as we move along. Next slide, please.



NDC development was reasonably stable looking both at Q versus Q and year over year. Affiliation marketing has contributed with a positive energy count, But this was largely offset by the lower activity within network sales. Next slide, please. And this slide illustrates our EBITDA and EBITDA margin in Q1 compared to Q2 of this year. The decrease, as you can see, in both EBITDA for absolute numbers and as a margin relates essentially to the expected seasonality effect of lower U.



S. Sport revenues. And this business line operates with a higher degree of fixed costs, which then naturally lower the margin of the group during the off season. We do, however, as Ofga pointed out, expect to have this to have the opposite effect during H2 when the football the. Network revenues have decreased as well, as we pointed out, with some effect on our EBITDA, but it has a smaller effect on our margin as it runs with a higher degree of variable direct cost, which is visible through the in general lower direct costs.



Other costs such as personnel expenses and other operating costs are essentially stable, and we expect this to remain stable during the following quarters. So to sum up, seasonality effects primarily for the U. S. Focused sport revenues the same amortization on our intangible assets and other finance costs, which represent the discounted value of our outstanding or not liabilities. Important to note is that these items are noncash affecting items, which is why cash conversion remains close to 100%, which frequency on the next slide.



Next slide, please. And my last slide is our cash flow bridge Q1 to Q2 of this year. As I mentioned on my previous slide, we continue to see high operational cash flow the with high cash conversion of 98%. Earn out payments amounted to SEK 2,800,000. Of this, €900,000 with Exaxe in February, which is an earn out that comes to an end towards February of next year.



And as from that point, we expect net cash to improve significantly. And as the last point, we have capitalized on costs relating to the development of affiliation cloud of about €200,000 This product will obviously need continuous development, but we're not expecting any major cost deviations from current levels. Call. Thank you. And back to Oskar and Slide 14, please.



Thank you, Mans. That was the last slide for the day. But before we move on to Q and A, let me just wrap things up first. And let's start with the financials. Q2 revenues totaled €11,300,000 equivalent to an annual growth of 29%.



Despite low season and tough comparison numbers, we saw stable performance from core assets. However, due to changed regulations in Finland, Germany And the Netherlands, we declined organically with 4% year over year. Adjusted EBITDA came in at €4,000,000 which equals 16.6 6% which is equal to 16.6% growth year over year corresponding to a margin of 35%. Other significant events and milestones worth highlighting is that our U. S.



Revenues came in at 12% of group total. And as Q2 is the slowest season of the year due to the U. S. Sports calendar, it is expected for this year to significantly increase during the upcoming high season, which is September to February. Sports as a segment represented 31% of group total and non Nordic revenues were 53%, slightly down from Q1 as a consequence of strong performance from our core assets in the Nordics.



Looking ahead, July revenues amounted to €3,900,000 which is solid considering the high season hasn't started yet. Looking at the rest the second half of the year. We do expect the market characteristics to fundamentally change as the American football season starts. Also worth mentioning is that this period is typically also where we see high level of activity within the casino segment. And this year, we also expect increased general sports activity, thanks to FIFA World Cup in November.



In other And that was it. Let's skip to the next slide, if we have any questions.

Q&A



First question comes from the line of Malin Vernek of Nordea Markets. Please go ahead. Your line is open.



Perfect. So yes, firstly, I mean, I understand that the month of July is a low activity month, especially for sports. But how should we view the July number here of 3.9 meg mill in relation to rest of the quarter. At what pace do you expect activity to pick up here throughout Q3? Thank you.



All right. I can take that 1 month. It is a bit hard to give projections within the quarter, specifically as we the Or have to. But generally, historically, Q3 has had an overweight of activity at the later part



slipper. I mean, you are shifting operations from the original team to the central rig tech team, right? So the And has this had any impact of the cost base already here in Q2? Or should we expect some impact in Q3 and Q4? If you can give some more flavor here on the effects of the cost base from this shift.



Yes, Mans, should I take that as well? Potentially, you can fill in if you have any more details. But I don't think you should we're already taking in the somewhat cost to that, but it's relating to staff costs, which I wouldn't say have any material impact. Of course, it has a marginal impact on our margin going forward, but it's not significant. So it's not worth mentioning in that context.



The I think what we're preparing is that we put once we take the asset over in February, we'll of course host all of the costs the Embraer, all of those internally, so that would potentially then change how we operate going forward. But still, we expect to significantly increase cash flow from that asset being generated as of February. But up until then, I don't think you should expect any material extra costs, Even though we are taking some, but that's relating primarily to a few to the team working with it from our side.



Yes. All right. And just lastly here on Finland. I mean, I assume that operators are cutting back on investments on the Finnish market the regulatory headwinds we're seeing here in 2022. Should we expect the Finnish market to drop further here from Q2 levels due to this?



Or what's the outlook from your point of view for the Finnish market here for the rest of 2022.



Yes, that's an interesting one Because the reason why the major operators are careful now when the marketing legislation has been tightened is that they are, to some extent, afraid of being subject to payment blocks as of next year, which basically means that they still have an appetite for that market because they are working very carefully. The So I would say that the level where we are at, at the moment is a stable one. We're actually seeing small positive signs the larger ones returning to the Finnish market somewhat more careful than before, of course. But I wouldn't the I wouldn't say that there are any we don't see at this point at least any signs of any major disruptions on that market within the short term.



All right, perfect. That's all from me. Thank you, Oscar and thank you, Maus.



Thank you.



Thank you. And we currently have one further question in the queue. And that next question comes from the line of Ricard Envay of Ericsson Bank. Please go ahead. Your line is open.



Good morning, guys. Good morning. Good morning, Ricard.



So my question is regarding the development the Affiliation Cloud, which you launched in the quarter. Are you satisfied with the launch? Street. And what can we see going forward?



Good morning. Again, yes, We are short answer, yes. We're very happy with the launch. We're I think we'd still have to stick with what we said last time. I think it has potential of turning over €10,000,000 within 2 years.



And it's quite an aggressive sort of submission, but I think it's highly realistic looking at where the global market is trending. The We've seen a lot of interest for it, but I want to point out that we're still in a beta phase. So we still have some development until we can Really push the button and market it on a global basis. But we're very we're positively surprised about How it's been received by the market so far.



Good. And I have one more question, And that is regarding the EBITDA and the guidance that you've given for the full year. The How do you see that the margin will increase? Is it due to higher gross margin? Or is it mainly due to driven by growth that you



will see that margin will reach SKU guidance levels.



Yes. So I think I mentioned it in my slide. I think it's We projected to have a similar sort of opposite effect that would have from Q1 to Q2. So Gross margin would likely be similar, though we have in Q1 and Q2. And then on top of that, we'll probably spread of growth in revenues, primarily, as Oscar pointed out, U.



S. Sports activity picking up, the casino ticket picking up and the FIFA, the World Cup Football Cup coming up in November December. I think the gross margin will remain quite stable and added growth as a driver to pay.



Okay, good. That was all for me. Thank you, guys. Call. Thank you.



Thank you very much.



Thank you. We've had a follow-up come through from Marlon Novanyk



Just a follow-up question here on the organic growth. I mean it was minus 4% queue for Q2. I understand that the Finnish market dampened that number quite a bit. Can you quantify or give some more flavor the on the effect of the Finnish market or what organic growth would have been ex Finnish market, for example? Thank you.



We haven't ever historically disclosed single markets in the Nordics. So I don't think it's wise of me to quantify it exactly. But if you discount the effects from Some network in the Netherlands and Germany being out of bounds for us, this out of reach for us this year in combination with Finland, we are seeing an organic growth of 3.4%. So Not sure if that helps you do the math backwards, but that would potentially help you do that.



And I think another way of putting it as well is we're looking at Nordic specifically, we do see positive development in Sweden, which the it's our largest market in the Nordic.

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Yes. All right. Fair enough. Thank you.



Call. Thank you. And as we currently have no further questions at this time, I'll hand



the floor back to our speakers. All right. Excellent. Thank you very much. And thank you, everyone, for joining the presentation today.



And we look forward to talking to you again in connection with the Q3 report in November.

