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Raketech

Q3 2022



Prepared Remarks



Welcome to the RaikTek Q3 2022 Report Presentation. For the first part of the call, the participants will be in listen only mode. During the questions and answer session, participants are able to ask questions by dialing star 5 on their telephone keypad. Now I will hand the conference over to CEO Oscar Mylbach and CFO Mort Svalbard. Please go ahead.



Good morning, and welcome to Raittag's Q3 report for 2022, my name is Oscar Milbach. I'm the Group's CEO. With me, as always, is also Mans Svalborn, our Group's CFO. As you can see here on your left, we have 3 topics on the agenda today before we open up for questions. Once again, warm welcome, and let's get started.



And that's on the next slide. And on this slide, we have, as always, selected financial we have reached the top left box, revenues amounted to €13,000,000 which is 35% more than last year and 15% more than previous quarter. Considering the positive momentum we had coming out of Q2 and thanks to seasonality, we projected growth quarter over quarter, I'm therefore happy to be able to conclude that we did manage to deliver on these projections. The year over year increase is driven primarily by 2 factors, acquisitions and solid organic growth from primarily sub affiliation as well as affiliation in rest of the world. Organic growth was 14.2%, which is the blue number highlighted in the bottom left box, and considering last year's comparison contains full Finland and Dutch numbers as well as a generally COVID boosted digital activity last year.



I'm very pleased with this 14.2% organic growth. In our last presentation, we projected our EBITDA margin to increase during Q3, which it also did. Quarter over quarter, EBITDA margin grew With 27 percent, totaling €4,800,000 this is the number in the top right box. Our EPS grew to €0.05 per share, which is 67% higher than last quarter And 6.2% higher than last year. Looking ahead, we have had a good start to Q4 with October revenues amounting to €5,000,000 which is a new record for us in a single month, we still see strong organic performance on core Affiliation assets And we have more clients lining up to be onboarded onto the Affiliation Cloud than we currently have capacity to handle, Which is why we've also decided to increase investments into this further to maximize the opportunity as early as we can.



And in general, Q4 looks exciting with the FIFA World Cup coming up as well as the casino peak season. We can move on to the next slide. Here are operational highlights. And this slide is highlighting our 3 main business areas. Affiliation marketing on your left is our bread and butter.



This area is Made up from various consumer facing assets such as Casino Fiavel, Slot Java and TV Sports Guide. We attract users by offering them comparisons, quality ratings or aggregated sports data and if they click on any of our promotional links and later convert to a casino or sportsbook customer, the operators pay us a finder's fee. This business area is very high in margin and the very core of what we do. During Q3, we grew affiliation markets by 18% year over year, thanks to continually strong organic momentum. And with organic momentum, I'm referring to the fact that we have seen good results on search engine rankings lately, which is key for us and its segment.



We are growing faster on fast growing markets and actually slower on more mature markets, meaning growth in the rest of the world was leading our way during During the quarter, we handed over the operational responsibility for Slots Java from the original Java team, which we acquired last year, to our central team. And on the same topic, we have full Dream Team in place to take over the Casino Fiebre asset once this earnout ends in February next year. If we quickly also look at the yellow section in the middle representing our sub affiliation business area, one can see that during Q3, this was our fastest growing area. Sub affiliation is, simply put, when we help other affiliates we have customers and operators to maximize their businesses by allowing them to use our proprietary infrastructure. They do this either through affiliation cloud or through what call, the cloud is used primarily by our organic affiliates, much like our own products, and the network is used primarily for specific campaigns with traffic often coming from paid or social media.



Margins within this area is naturally lower than affiliation marketing, but the risk is also significantly lower as we don't invest into products or assets. As from now, we will not report affiliation cloud and network Separately every quarter due to competitive reasons. However, I can tell you that the Affiliation Cloud by the end of Q3 had 20 clients and more in the queue to be connected. Also, SBC awarded us with the Product Innovation of the Year Award for 2022, which is telling me we might be on to something here. On your far right, In the blue section, you can see our 3rd business area, which is bedding, tips and advice.



Currently, this is something we only offer in the U. S. Something we did not have before last year's U. S. Acquisitions.



In a nutshell, we offer predictions on games to the U. S. Audience and we charge subscription fees, one offs and we get bonus when predictions are right, which we call WindShare. This business area is very much driven by But due to the wind share component also a bit volatile. So far this year, we have seen great progress in terms of organic visibility, traffic numbers, user engagement, etcetera.



But unfortunately, the wind share results are somewhat okay, but not more than that. As I mentioned on the previous slide, we do have most of the sports season ahead of us. So I have high hopes And expectations on this area for Q4 and Q1 of next year and long term, we want to monetize further on these great assets So before we move on, I wanted to also quickly revisit what I presented last time, which was this slide with the expected the growth drivers for H2, which is Q3 and Q4 of this year. This slide is essentially unchanged since last However, I've added green tick boxes to showcase the fact that so far our expectations on the second half of the year seem to be reasonably right. We did and still do expect sports to add to our growth for this specific time considering the US sports season is peaking and In addition, we have the FIFA World Cup in Qatar.



We have already seen activity pick up and the interest from operators maximizing the opportunity is comforting. We do, however, still have most of the sports boost ahead of us, which is also exciting. Secondly, our currently strong organic momentum and the Affiliation Cloud as well as last year's acquisitions being with us for 12 months now, we anticipate organic growth to continue to be strong. I do, however, want to point out that, and this is the blue text in the bottom of the middle box, we are experiencing somewhat capacity constraints, meaning that we currently cannot onboard as many partners as we would have hoped, simply due to lack of resources and minor technical development still waiting to be finalized. We're doing everything we can to speed this up, of course, I'm working intensively to accelerate this opportunity as quickly as possible.



And finally, with a quite fixed the cost base, we should naturally also see an increase in EBITDA during Q4, just like we did in Q3. But depending on which business area on which market that grows the most during Q4, it is difficult to assess exactly how much this effect will be. We can move to the next slide. Looking even further than this year, here's a slide on where I See that our best chances of creating value are, as you might remember from a few years back, we had something similar, but that time expressed as operational strategic goals. In short, they focused on ensuring RaqTech established a solid global footprint reduced its dependency of the Nordic markets, widened its product portfolio and better balanced the mix between sports and casino related revenues.



And for those who have followed us, you might also recall that we managed to deliver all of these goals even quicker than we first anticipated. With that said, I believe we have a solid strategic position and additionally, our finances are in order. Our net With that said, it's time for us to explain how we think we can best capitalize on this solid financial and strategic position. In short, we have 3 areas where we believe we could make an impact. The first one to your left is our flagship assets.



And with flagship, I mean products that are of significant size, have solid and high margins and a good strategic fit. The affiliation industry has been moving more and more and will be moving even more towards high quality end user products. With our position, our talented organization and plus 10 years of industry experience, we believe that we have what it takes to increase the distance to competition even further by concentrating efforts towards our largest products more than we've done historically. Concretely, this means that we will be dedicating more and more highly skilled resources towards these products. We will also use the central team to focus more on developing new and unique features and functions, conquer new markets and potentially market these products if it fits in paid channels.



The second area in which I project growth to come from in the future is of course affiliation in the U. S. The market in itself is projected to grow with somewhat 25% year over year in the coming years, and we have great products that are right in the center Of the target audience for the US iGaming operators, as our products today target US tipsters. We have had this product in the group less than a year and I've therefore not yet seen the full potential of what we potentially could generate in terms of But I'm confident we'll be able to deliver this within the coming years. Therefore, we are planning to increase resources and investments here and also create a tighter collaboration between our central affiliation team and the local US tipster team.



For reference, our Tipster assets in the U. S. Alone had 2,000,000 unique users in the month of September. And finally, to your very right in this slide, we have Affiliation Cloud. This is the unique SaaS solution that helps operators and affiliates maximize their respective business by reducing admin, providing valuable insights and great commercials.



The interest so far has been great and I'm looking forward to accelerating growth within this area already next year and the years to come. With those words over to Mans and the Q4 sorry, the Q3 financials in detail.



Yes. Thank you, Oscar. As expected, we saw revenues increase sequentially in Q3 and we are with SEK 13,000,000 at an all time high for the group. Starting with Affiliation Marketing, revenues are up with 6% from Q2, which is an expected development through seasonality but also performance related as a number of assets saw positive development following the recent Google update. Sweden is standing out positively.



Kasumba continues to outgrow the market and some of our smaller assets in LatAm are seeing positive results. Sub affiliation has increased significantly in Q3. There is an increased activity within network sales, but we've also seen added revenues through the launch of Affiliation Cloud. Our U. S.



Focused betting tips and subscription services accounted for 10% of total revenues in Q3. And as Oskar pointed out, we are seeing activity pick up towards the latter half of September with the start of NSL And there is good momentum in both traffic and leads. As we mentioned, the start of the season is so far somewhat below The table on the right hand side of the slide provides a brief product overview. Affiliation marketing is by far our most profitable product. We expect this side of the business to maintain high margins of between 60% to 80% and scale as performance improves.



Sub affiliation with a significant growth in Q3 and with direct costs correlating directly with revenues, the margin is expected to remain stable between €0.10 and €0.20 And lastly, betting tips and Description is, as we pointed out throughout the year, very dependent and correlated with the U. S. Sports season. This area has a mix of direct and indirect costs And as such, the EBITA margin will fluctuate in line with activity. So during the off season, the margin can go as low as around 5% And then peak at around 40% during high season, however, with an expected yearly average of about 30%.



This mix of products and the fact that the share of revenues vary between the periods leads to more volatility between the quarters with regards to our EBITDA margin. The mix of products is however something we believe is Specifically important and leads to a better risk profile for the group as well as a better positioning for the group to ensure further growth. And we can go to the next one. This slide illustrates our revenue diversification split on regions, Nordics took a jump in Q3 driven to some extent by Sweden through improved performance from affiliation marketing assets as well as seasonality effects, Nordics were also impacted by added revenues through affiliation cloud, which has so far been concentrated primarily to the Nordics. Finland, as we highlighted, as decreasing in Q1, has remained stable throughout the quarter compared to Q2.



Rest of world grew with 13% from Q2 through Kasumba, increased activity within sub affiliation and also Some positive growth from LatAm, which is still small but showing potential. And U. S. As we mentioned, started to see an increase in activity in the end of September, but again, it's somewhat short of expectation with regards to Windshare based on predictions for subscriptions. And the next one, With regards to our vertical split, Sport revenues represent 25% of total revenues in Q3, which Corresponds to growth of more than 100% from last year, driven primarily by the U.



S. Focused sports assets we acquired at the end of 2021. Compared to Q2, there is a decline of 9%, which relates to a shift of efforts within sub affiliation from sport This was to some extent offset by an increase in U. S. Sports.



And as we enter Q4, we expect this to grow and we consider the increase in total share of sport revenues that we've seen so far in 2022 to be an important strategic milestone for us. Casino revenues came in at 75% of total revenues for the quarter, driven by improved performance on affiliation marketing assets As well as seasonality and additionally there was an increase in casino revenues relating to sub affiliation. And the next one, the slight decrease in MDC's year on year relates to a shift in markets with the growth tilted slightly more towards high value leads. It's also an effect of us on all markets actively targeting brands and traffic that generate higher value ahead of a high number MVC account. Compared to Q2 of this year, we're up in indices both within affiliation marketing as well as sub affiliation.



And again, this is a combination of seasonality and performance. And next slide. EBITDA in absolute numbers have grown with close to 22% from Q2 and our EBITDA margin has increased from 35% to 37.1%. The growth as we have highlighted is an effect of increased revenues across all products, our predominantly fixed cost base consisting of employee cost and operating cost are stable in the quarter and very much in line with what I covered earlier is that an increase in sub affiliation drives direct cost with a margin of around 10% to 20% as you can see in the slide. As this area increase as a share of total revenues it leads to an increase in EBITDA but has somewhat a dampening effect on the group's combined EBITA margin.



As an opposite effect, the fact that our other costs are scalable means that when an increase in our high margin assets within affiliation Marketing has a positive effect on our margin. As we enter Q4 with expected further growth within affiliation marketing and improved margins Better performance from our betting kitchen subscription area, we expect the margin to improve even more. And for the full year, we are targeting a margin of just slightly below 40%. But as I've highlighted, it depends a little bit on how the product mix develops. And next slide.



The largest items below EBITDA are And amortization on our intangible assets and other finance costs, which represent the discounted value of our outstanding earnout liabilities. Important to note is that these items are non cash effective items, which is why cash conversion remains close to IBPAY, which we can see in the next slide. And as I And we continue to see high operational cash flow. Cash conversion was close to 90%. This quarter, the cash somewhat impacted by a timing effect for trade receivables, which is expected to even out in the coming quarters.



Earn out payments of SEK1,100,000 relate to casino with Febre, which is an earn out that comes to an end towards February of next year. And as from that point, we expect net cash flow to improve significantly. As the last point, we have capitalized some costs relating to the development of Affiliation Cloud of about €200,000



Thank you, Mans. It's time to wrap things up. Let's start with the financials. Q3 revenues totaled €13,000,000 equivalent to an annual growth of 35%. We grew organically with EBITDA amounted to €4,800,000 corresponding to a margin of 37.1 percent.



With regards to milestones, our U. S. Revenue share of total amounted to 11.5 percent and Nordics amounted to 49% of group total. And finally, sports came in at 25 percent of total. Looking ahead, Q4 is as expected off to a good start with revenues We do expect Q4 to continue to be strong, thanks to the casino peak season, but also the FIFA World Cup.



I want to point out, however, that having the World Cup in November is an untried concept and difficult to with certainty predict the effects from. Furthermore, this is our 1st year with significant U. S. Revenues, and we are also humbled to the fact that we don't have multiple years of experience predicting the seasonal effects just yet. With that said, we predict our revenues to come in comfortably within our full year guidance, but Depending on which market and which product that grows the most, EBITDA margin for the full year will most likely land slightly under 40%.



Through continued growth and a strong margin with high cash generation, I'm happy to be able to continue to invest in strategically important, the strategically important U. S. Market, our flagship assets as well as the affiliation cloud, which we feel confident will enable Rayktec

Q&A



if you wish to ask a question, please dial star 5 on your telephone keypad. To enter the queue, if you wish to withdraw your question, please dial star 5 again on your telephone keypad. The next question comes from Marlon Vernek from Nordea Markets. Please go ahead.



Yes. Hi. Good morning, Oscar and Thank you for the presentation. So a few questions here. Maybe we can start on the Affiliation Cloud.



Seems to do pretty well. But how should we view this going into is this in a strong Q4, but maybe more importantly, going into 2023 in terms of growth and profitability, if you can elaborate a bit further here would be great. Thank you.



Yes. Good morning, Marlon. Thank you for the question. We haven't guided specifically on the affiliation cloud as such. We've said that we're aiming at €10,000,000 in revenues within 2 years from this business area.



It is, however, picking up a little bit faster than we first anticipated, which is a positive problem, but we don't have a good guidance for the next year just yet, so we'll have to get back to you With that, as soon as we have those projections ready.



Okay. Thank you. And on back of the EBIT margin cut here For 2022, is it solely due to the affiliation cloud investments? Or what other things have impacted here?



Yes. So it's primarily the sort of mix of products. So we came in slightly Of a higher share of sub affiliation revenues. And apart from that, the other costs are actually quite stable. So it's primarily sort of the mix Of the products you had saw in the quarter and that we're expecting to see in Q4 as well.



Yes. Okay. Fair enough. And also on your 2022 outlook here on revenue, but also EBITDA margin, When you communicated your outlook earlier this year, what effects did you pencil in for the World Cup? So basically, what do you expect here For the World Cup to impact foreign revenues.



Yes, We haven't quantified that in the projections, but obviously there is a natural effect. One has to, however, also keep in mind that we have roughly 25% or we had during Q3, 25% of revenues coming in from sports. So obviously, if it would have been a Casino World Cup, it would have been impacting us more than a sports event. So, it is having a significant effect, It's not as dramatic potentially as if it would have been casino. We haven't quantified the exact effect officially, but there is an effect Backed into our own projections.



So perhaps it's



important to note as well that the U. S, it's We're tilted obviously towards U. S. Sports and the World Cup is not as interesting for the U. S.



Consumer assets structured as of now.



Yes. And maybe finally for now, have you seen any Indications of Wilkenny consumer spending or any other KPIs you follow for activity for your business yet?



Yeah, that's an interesting one. We have been so far, knock on wood, Fortunate enough not to see any major effects from that. We're, of course, humble to the fact that this might impact the gaming industry eventually, but so far, we haven't really seen any effects from that. If you look at The gaming industry as such is also growth driven by the fact that there's a shift from offline to online. So exactly How this will play out in the long run, it's hard to predict, but we don't, at this point, see any major effects From those macro factors on our ability going forward.



Okay, great. That was



The next question comes from Ricard Engebuk from Eric Penzer Bank. Please go ahead.



Morning, guys. My question is that I've noticed that some U. S. Operators have seen a decreased Customer acquisition cost lately, have you observed this and how will this affect you?



Good morning, Richard. We've noticed what's been written as well about this. We haven't seen those we haven't seen the dramatic effects that we read about that others have experienced so far. So To simplify the answer, no, we haven't seen those effect as of yet.



Okay, cool. Is that related to income next But you have tips rather than CPA?



No, I was interpreting Ask a question with regards to more of the CPA levels. So that was excluding that. But obviously, due to the fact that we have a significant share of revenues in the U. S. Coming from tipsters, we would be less affected by changes



The next question comes from Marlon Vernek from Nordea Markets. Please go ahead.



Yes. Hi, Oscar, Mans, Milligan, Marlon here. So just a few more questions here. The other cost post increased a bit here Q on Q. I assume you are taking costs related to Casino fee bear here.



Can you specify how much of the other cost is related to Casinofibear? And also how should we expect the effects here go into Q4 and maybe Q1 next year?



Yes. You want to take me to take the first one, Oskar perhaps? Yes. And then you can elaborate a little bit on 2023. Yes.



So there is a little bit of an impact and not a lot in Q3. We're expecting a little bit more in Q4. The The theme that Oskar mentioned we brought down is obviously resources we've found internally. So they've been with us I don't see it being material for Q4. And then I'll hand over for Oskar on 2023 and the plans for next year.



Yeah. So, with that said, obviously, Casino Fibre is one of our largest assets. It's very important for us. We're going to put enough effort into that product to make sure it grows even into the future, which means that we need to have enough resources and marketing money dedicated to that product, if you look at What's important to maybe keep in mind here is that because it's been run as an earn out, we haven't been able to keep all of the cash flow because that's how the earnout is structured. So we you would anticipate the future for Casino Fieben, isolated to be slightly lower in margin than it has Before, but still on a very, very high margin at around 80% to 90%, but The significantly higher cash contribution, that will be the effect and that will be more of a technical bookkeeping effect than anything else.



But the cash conversion is good. Not sure if I if that was an answer if that was answer enough of your question, Marlon.



Yes, absolutely. Thank you, Oscar. Maybe just lastly, more generally here from my side, the Tipster business, I mean, it Accelerated as expected from mid September and onwards in the U. S. Can you maybe walk us through a little bit on the dynamics in the Tipster business, what's the sports split?



What's the average length of contracts and maybe also profitability compared to the rest of group? Any comments there would be great. Thank you.



Yeah. So it's partly subscription based or fixed fee based. So, Typically, opt ins for a full league or for a specific game. So those 2 types. And I'd say that the subscription part where you stay with us for quite some time for an entire league or for 2 entire leagues it's the most, the common one.



Then there's also the component which we mentioned in the presentation, which is the Windshare. So one of the unique offerings that we have in the US is that we also price ourselves sometimes a bit lower in order to get the players in. And we get bonus basically on Well, we are able to give them facts and predictions for the leagues and for the games. And if we're doing well, we get bonus to that. And that is also significant share of the U.



S. Business and that makes it a little bit volatile just like a sportsbook margin if you would have been an operator, it varies a little bit between the quarters depending on the outcomes of the games.



Yes. And on the sports split, assuming it's NFL is the bulk, how does it look?



Yes, yes, definitely. It's just like you would expect it to be in the



Thank you.



There are no more questions, so I hand back to the speakers for questions from webcast and closing remarks.



Yeah, we actually do have 2 questions. 1 is relating to casino farebrand earn out And impact on revenues and cost and I believe we covered that through the question of from Marlin from Nordea. And the second one relates to if we are benefiting of any new states opening up in the U. S. In 2022 or 2023, if you have anything to add on that one, Oscar.



Yeah. Yes, obviously, we like regulations in the U. S. Because that means that states are targetable for our affiliation efforts, so obviously the more regulated states, we see, the better it is. One need to remember that we're still not as big in the U.



S, so it doesn't have for the Group, it might not have a significant impact if 1 or 2 states open up. But obviously, in the long term perspective, it's super important that as many as possible of the states in the U. S. Are open



call For online gambling.





But there aren't any, to my knowledge at this point, major game changes. In the short perspective, there was discussions about California, which seems to unfortunately go in the wrong direction, which would have been obviously a massive opportunity. But I don't think the last word is said with regards to that. So we'll just have to wait and see.



Yes, I think that was it. So we can go to closing remarks.



All right. Thank you for listening in today and thank you for all the clever questions. We look forward to talking to you again in connection with the