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Raketech

Q4 2022



Prepared Remarks



Welcome to the Raketech Q4 2022 Report Presentation. For the first part of the conference call, 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 the speakers' CEO, Oscar Mylbach and CFO, Mon Svalbard. Please go ahead.



Good morning, and welcome to Rigtek's final report for the year of 2022. My name is Oscar Millbach. I'm the Group's CEO. And with me is also our CFO, Mans Svalbon. As usual, we have 3 topics on the agenda before we open up for questions.



Once again, welcome and let's get started. Financially, Q4 ended on a strong note with yet another revenue record for RegTech. Revenues for the group amounted to €15,700,000 which is Equivalent to 32.5 percent growth year over year. In our industry, Q4 is typically the strongest quarter of the year as an effect of seasonality. But this year, we were also helped by strong operational performance across most assets as well as an increased interest for our products, thanks to the FIFA World Cup in November.



For the full year, we came in at €52,600,000 with an EBITDA of €20,000,000 which is in line with our guidance. In comparison to previous year, this corresponds to an annual revenue growth of 36.7 percent and 23.9 percent EBITDA growth. In Q4, we generated EUR6,300,000 worth of EBITDA at a 40.3% margin, which is proof of us Scaling nicely with increased volumes, we furthermore delivered an EPS of €0.07 per share, which is the bottom right number in blue in the presentation. Thanks to strong organic momentum within Affiliation Marketing in general and sub affiliation In particular, organic growth reached 23.1%, which makes Q4 the strongest organic quarter of the year. For the full year, organic growth amounted to 10.8%.



Furthermore, the Board of Directors recommends The AGM to decide to distribute approximately €0.094 per share in dividends. And looking ahead, we've had a good start to 2023 with January revenues totaling €5,000,000 which is strong as we usually experience lower demand during this time of the year. We're currently focusing our efforts on the U. S. Sports assets as the Q1 is filled with engaging sports events such as the Super Bowl and March Madness.



Worth mentioning perhaps is that last year our offering relating to these events did exceptionally well, so the comparison is expected to be a bit tough. Additionally, as I mentioned in our previous report, we're also working hard on launching the Affiliations Cloud to more clients to accelerate growth already by the end of Q1. And now to some operational highlights. As you know, we nowadays have 3 main business areas or commercial offerings with slightly different target audiences, technology and margins. Affiliation marketing to your left here on the slide is our core and this is a high margin and well established business area.



A milestone worth highlighting is that we during Q4 took over The operational responsibility for one of our largest assets, CasinoFever, completely. And as a little taste of what the new team has in store for us, I want to mention Casino Tempen, which is a unique investigation into the Swedish casino market in which we have mapped typical casino player, drivers, demographics and which casino they appreciate the most and much, much more. The full report is made available in English as well as Swedish on casilofiber. In other news, one of our other flagship assets, Casino Guide, has gained ground in Sweden and is now at an all time high, placing it among our absolute top portfolio assets. We initiated investments into this asset already 2 or 3 years ago, and I wanted to bring it up in today's presentation as an example that hard work and long term thinking pays off, but also as an example to show that SEO takes time.



If we look at the yellow segment in the middle, sub affiliation growth was close to 53%, where the majority originated from our network sales and in parallel, although from small levels, the affiliation cloud continued to expand by adding 8 new clients where 2 were fully managed accounts. And with managed accounts, I mean clients where the affiliate hands over all Affiliation contracts and all reporting, not only selected parts. Furthermore, Affiliation Cloud went live in South America and India. And in February of 2023, the product won the IGB Best Tech for Affiliates 2023 at the Cereboli in London. And within our bedding tips and advice business area to your right, we launched a new platform for pigs and parlays to support the continuously growing number of user sessions.



We also appointed a new Managing Director who joins from BCG in New York, his name is Rama Sharifi, and he brings strategic and commercial knowledge with the aim to accelerate growth in the U. S, But also to help us within the area of M and A and Business Development. Finally, we added dedicated commercial and operational resources to focus And with that said, we have large ambitions for each and every one of these business areas, and we expect all three to continue to thrive going forward, with affiliation marketing being the more steadily growing and high margin area and sub affiliation being a more opportunistic of more opportunistic nature With stable but lower expected margins. With that said, the Board of Directors has decided that the old financial targets based only on affiliation marketing has lost its relevance and therefore chosen to replace this with short term And more detailed financial guidance, which I will talk more about on the next slide. So for 2023, we estimate group revenues to amount to €60,000,000 to €65,000,000 which corresponds to an organic growth of 15% to 25% for the full year, which in other words is noticeably higher than the previous financial targets of 10% organic growth.



This includes all business areas and all markets. As we take over operational responsibility for Casino Verbel, we'll have a full year with Infinileads. We estimate approximately €2,000,000 in additional operational costs. This is during 2023 expected to have a slight dampening effect on EBITDA growth, which is projected at up to 20%, depending a little bit on where within the revenue interval we will land. Worth pointing out in this context However, that even though operational costs increase with €2,000,000 as we take over Casinofeber and Infiniliz, net cash flow increases at the same time with as much as €6,000,000 to €8,000,000 This means that distributable cash flow is projected to increase with 120% to 160%, putting us in a position in which we can allow ourselves to both pay out dividends and continue to be opportunistic when it comes to M and A during 2023 onwards, as we replace our long term financial goals with annual detailed guidance, I quickly also wanted to take the opportunity to again walk you through how we aim to deliver on this and our strategy to continue to deliver growth even after 2023.



Starting to your left with the flagship growth area. Simply put, we believe that with maturing markets, well educated users and more demanding advertisers, we need to make sure we have the best products possible. We believe this to be one of our greatest opportunities where our central platforms, our central audits and data analysis teams, as well as our wide range of available systems and tools can make a big difference for each asset individually. Investing into fewer but better products also lowers search engine risks And creates natural user loyalty. In 2023, the overtake of Casino Fibre is, of course, our top priority.



And here we have lots of exciting activities planned. We will also be looking into expanding the fast growing casino guide into new markets. And finally, we have identified a possible opening in the U. S. Market for our Slots Java asset.



Looking even further ahead, we are investigating external marketing and various forms of corporations as well as building services where the end users don't only use us as reference, but also creates a relationship with our assets similar to what we have done with our over 100,000 recurring TV Sports Guide users today. Moving over to the middle segment on this slide, U. S. Affiliation. During 2022, we have invested into the U.



S. Organization and experimented with various ways of introducing affiliation on our picture assets. We've had some success, but I would have hoped we would have moved a little bit quicker, which is why we are doubling down on this as from now and expect thereby to see accelerated results during the year and forward. Looking even further ahead, we are introducing a central and more modern CRM platform to the U. S.



As well as expanding our U. S. Generic content to a more state by state like tailored experience. Finally, Affiliation Cloud is soon ready to be marketed with full force. We will not stop building new features and functions, of course, As this is the only way to keep ahead of competition, but we won't any longer hold back on efforts to take market share.



Looking ahead of 2023, this business area is perhaps the most difficult one to estimate and a big reason why the use of long term financial goals is not relevant for us at this point. But to be clear, nothing has changed with regards to our goal of reaching €10,000,000 in run rate by the end of 2024. The market for the product is enormous and we believe that most operators and affiliates at some point will move all or large portions of their volumes to Affiliation Cloud, but it is difficult to say exactly when and how this will happen. Worth pointing out is though that we have already we are already in dialogue with several large operators with regards consolidating all or most part of their affiliation marketing under one umbrella, one report, one invoice, one contract contact of 1 person. Additionally, we also aim to launch new services through the affiliation cloud such as more advanced data analysis or automated notifications on performance deviations, which we also hope to monetize on in the future.



And also, and this is important, the Affiliation Cloud database can be used and will be used to find interesting acquisition targets based on their performance. And with those words, I'll hand over to Mans to go through the financial details. Mans?



Thank you, Oscar. So this is a slide or an illustration of our EBITDA development, but more specifically, our cash flow net of earnouts for the last EBITA to come in between €20,000,000 to €24,000,000 for 2023, driven by the strategic growth drivers presented. Important to point out here is again that the 2 of our earnouts namely Casino Faber and Infiniliz are coming to an end in 2023. And from an EBITDA perspective, the fact that we've taken over these assets will have an impact of approximately EUR2 1,000,000 for 2023 as operational costs increase with us running these assets in house. However, as a direct positive effect as these earn outs reach final settlement, our free cash flow at the same time will increase with about €6,000,000 leaving us with an expected free cash flow of €11,000,000 to 13,000,000 which is a significant increase from prior years.



Looking beyond 2023, our last remaining bigger earn up relates to Kasumba. This is an asset that continues to outperform our expectations, which we are happy about. During Q1 of this year, we have renegotiated the settlement terms for the earnout. And in broad terms, the renegotiated terms means that we'll settle up to €15,000,000 in 2024 for part of the earnout and any remaining amounts Can through the amended terms be deferred up until Q3 of 2026. And this enabled us to have good visibility on our projected cash position as well as cash flows and leaves us room to continue to be active within M and A as well as leaving room for any future dividend paid out in line with proposals from the Board.



As expected, in Q4, we saw revenues increase sequentially and we are with close to €16,000,000 yet again at an all time high for the group. Starting with affiliation marketing, the positive momentum we saw in Q3 continued in Q4. The FIFA World Cup delivered as expected, boosting revenues and general activity both within sports but also casino, we saw our Swedish assets generally perform well and our assets in rest the world continued to outperform. As we've highlighted before, affiliation marketing is and will continue to be our core business area. It represents 66% of total revenues in Q4 and with its high margins of around 60% to 80% helped push the group's overall EBITDA margin in the quarter.



Sub affiliation continued to grow in Q4, representing 22% of total revenues and margin was around 20% in the quarter. Lastly, our U. S. Focused betting tips and subscription services increased as expected in the quarter as a natural effect of U. S.



Sport activity picking up with primarily the NFL season. Revenues within this area are predominantly based on wind share prediction. And as we highlighted in Q3, the start of the season was somewhat below expectations, which left Q4 as well slightly below our expectations. This slide illustrates our revenue diversification split on regions. Nordics continued to show strength in Q4 with our Swedish affiliation marketing assets driving the majority of the growth, And it's been very encouraging to see that the majority of our bigger sites in these markets are growing.



Within sub affiliation, there was a slight shift from the Nordics to other markets, which to some extent offset the strong growth we saw in Sweden. Rest of World grew with 36% from Q3 Through Kasumba increased activity within sub affiliation and also some positive growth in LatAm. U. S., as I mentioned, picked up in Q4 in line with the U. S.



Sporting calendar. And even though revenues grew with 60%, we do have higher expectations for this area. With regards to our vertical split, casino revenues came in at 73% of total revenues for the quarter with a quarterly growth of 19%, driven by improved performance on our affiliation marketing assets as well as seasonality. Additionally, there was an increase in casino revenues relating to sub affiliation. Sport revenues represented 27% of total revenues in Q4, which corresponds to a growth of more than 60% from last year.



This is driven partly by the U. S. Focused sport assets we acquired at the end of 2021, but again also the FIFA World Cup boosting revenues. Our MDC development for the quarter reflects the generally strong performance we saw in Q4, we saw MDCs increase for the majority of our biggest assets as well as increased activity within sub affiliation. In line with our previous guidance for Q4, For EBITDA grew in absolute numbers and margin wise, we did see an increase from 37% to 40%, which is a direct effect of a relative increase in share of total revenues for a high margin affiliation marketing assets.



This area scales with a direct positive effect on our overall group margin. And worth highlighting again is that any growth within sub affiliation With a more stable margin of around 20%, we'll increase direct costs as illustrated in the graph. And my last slide is the cash flow bridge Q3 to Q4 of this year. Very briefly on this slide, I would just Like to highlight again the effect of Casino Faber and Infiniliz earn out payments that will come to an end after Q1 of 2023, which will improve our cash flow net of earnouts. Thank you and back to you, Oskar.



Thank you, Mons. That was the last slide of the day. So in short, I'm very happy with our performance during Q4 as we delivered a new revenue record of EUR 15,700,000 coupled with over 23% organic growth and an increased EBITDA margin. I'm also happy with our general strategic and financial position and pleased to announce The Board of Directors is suggesting dividends of approximately €0.094 per share. Furthermore, I am excited about finally bringing some of our largest acquisitions in house and to see what our talented in house team can bring to the table.



I'm not going to give away too much at this point about their plans, but considering the success we've had with Casino Guide, I can't wait to get started, not only from a growth perspective, of course, but also from a cash flow perspective, where we already during 2023 will be able to notice a significant increase of approximately euros 6,000,000 to €8,000,000 as a direct effect of this. For 2023, we expect revenues within the interval of €60,000,000 to €65,000,000 EBITDA of €20,000,000 to €24,000,000 and a distributable cash flow of €11,000,000 to €13,000,000 And with that said, it seems as 2023 is off to a good start with January revenues amounting to €5,000,000

Q&A



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



Hi, good morning. Good morning, Oscar and Mans. So a couple of ones from me. Firstly, I mean, as you said, a solid start here to the Q1 revenues, dollars 5,000,000 in January. But how should we view January in relation to February, March in terms of activity and then maybe what churn do you pencil in the revenue guidance for the Tipster business after March Madness?



And how should we view You guys in Q2 after NFL, the March Madness. If you can elaborate a bit here on rest of Q1, but also Q2, it would be great. Thanks.



Good morning, Marlon. Thank you for the questions. So if I got you right here, a little bit of extra light on Q1 and potentially Q2. And then what was there anything else in the question? So that was it?



Yes, that's it pretty much.



Okay. So, well, Q1 is typically, if you look at the casino part of thing, is typically a slower quarter, February having a few Days less as well as other months. So Q1 is typically not the high season. It's the low season for casino, Which is why we're happy about the start of €5,000,000 Looking at the U. S.



Specifically, Q1 does, however, have a few activities that we are not used to from before, which is the major sports events. So we're looking forward to that. But as I was saying in the presentation, We had a very strong Q1 last year with regards to the U. S. And the Pixar type business.



So we're looking at a tough comparison. But we, of course, we have high hopes, But just bear that in mind. And more than that, I don't think I should guide or I can guide, unfortunately.



Yes, okay. Fair enough. And also, can you dig A bit further into the 2,000,000 costs related to casinofilbir and phenylids. What cost lines more specifically are impacted and how?



Yes. That's also a good yes, Mans, do you want to take it?



Sure. Yes. So very simply put, these The operational costs running these assets have been settled through the earn out previously. And now that we're bringing these Teams in house that will naturally increase operational costs for us, but it's more sort of a technical effect of it. So getting rid of quite material earn out payments And basically, very simply put, the exchange in them for some increased operational costs.



So that's why we're Trying to point out the positive effect on free cash flow that we'll receive from 2023. And with regards to the line items, It's basically SEO related costs and personnel expenses of bringing these resources in house.



Thank you. And then just last one from my side On Affiliation Cloud here, if you can elaborate a bit more about the growth path here in 2023, Maybe when and what magnitude should we expect in terms of sales? Also, what revenue and EBITDA margin levels are reasonable to assume? If you can add any color on that, but also by adding it to the U. S.



PIXTA assets, top Atlassian Cloud, how and then how that



Right. So in terms of specific growth for Affiliation Cloud During 2023, it's included in the €60,000,000 to €65,000,000 revenue growth that we expect for the group, which you If you compare it to the previous financial goals of 10% organic growth, it's significantly higher this year, 15% to 25% is what we expect for the group. And in those numbers, we do have Affiliation Cloud baked in, if you will. And then the what we've said, which is still very valid, is that we are aiming at an annual turnover by the end of next year of €10,000,000 for the Affiliation Cloud. But In this context, I also want to highlight what I tried to say in the presentation that this is very difficult to predict.



I think that the €10,000,000 in run rate by the end of next year is that's an estimation that I feel very comfortable with. But if things go very well, this could might as well also be a much higher number, but we don't want to give Any estimates or predictions on that, but that's also a bit complicated to predict because we simply don't know at this point. So it's a bit hard to guide on it. And obviously, if Affiliation Cloud increases much more substantially more Then these type of guidances, we will, of course, return with the information about that because that will have effect on group margin Because it is run on a lower margin, a more stable margin around 10% to 15%, I'd say 10% to 20% maybe.



Perfect. Thank you, Oferma.



Thank you.



The next question comes from Ricard Enberg from Eric Pennsbank. Please go ahead.



Good morning, guys.



Good morning.



So I have one question regarding the new Guidance and growth going forward, since you state that you see high growth in sub affiliation and betting tips and advice, can we assume that the gross margin will fall down during 2023 coming years,



Yes, You can. So again, going back to Oskar's previous comments, the timing of when this Growth and how they balance out a little bit is obviously slightly uncertain. But when the growth comes, You're exactly right. Gross margin will shrink to some extent.



Okay, good. And One more question, if I may, regarding betting tips and advice. How can you describe how this is affected by result And the spot margins for operators.



Yes. That's It's a good question as well. It's to simplify it a lot, it's very much the opposite of the sports book margin. So our job, what we offer to the consumer is with the help of skilled and trained experts that use data as foundation, we help them we help the consumer to bet on sports basically. And for this, we charge the consumer So it is one part where you pay to get access to this advice.



And then we also have a system where We get paid more if our advice leads to them beating the house. So this is also, to some extent, explaining Parts of volatility where we could just like a sports book operator have A good streak and a bad streak for some time.



Okay. Good. I think that was all for me. Thank you a lot.



Thank you very much.



There are no more questions at this time, So I hand the conference back to the speakers for any closing comments.



Right. So we do have a couple of questions in the chat here, Oskar. So the first one of, do you have any insights And thoughts on the development of the unlicensed Swedish market and if this is holding your business back in Sweden.



Yes. All right. That's a very relevant question. We have over the last, I'd say since Sweden reregulated back in 2019, this has been a major issue for a lot of us affiliates, Also from the operator perspective, of course. But we're seeing a positive change here where the Swedish Slater is finally taking action against the unlicensed the black market basically, putting in various obstacles and sanctions potentially against payment providers and as from Mid this year also introducing new laws to get to other parts of the value chain that is Supporting the black market.



So we're finally looking positively on the development with regards to the black market in Sweden, where we Hope to see that most of this volume over the next 1 or 2 years will return to the black market To the white market,



of course. All right. Another one, Kasumba earn out has grown to Become quite substantial. Could you give some color to how the earn out is structured? Is most all of Kasumba's EBIT kept by the founders?



So, yes, it has grown, which we are, I mean, very, very happy about Because it's they've outgrown our expectations and we are it's a positive sign that it is growing. From a commercial perspective, we have not disclosed how the earnout is particularly structured. But As you've probably seen in the report, we have come to an agreement to how we structured the settlement in the next few years, which we think it's a good step forward and gives us a very good visibility on our future cash flow position and and projections where we think we'll find a balanced way of keeping up with M and A and investing internally and Proposed dividends should the Board continue to do so. Right. We have a question on affiliation, cloud, How many partners in the quarter and how much revenue in the quarter?



Yes.



Yes. Sure. I don't think we at this point we haven't we have decided not to guide specifically on affiliation cloud. We will of course I understand that There are a lot of you that are interested in knowing exactly how this project how this is proceeding. We will later on this year come back to this when we have a little bit more meat to the bone and we've after we've been more aggressive in terms Of sales pushes, but it's going in the right direction.



We are constantly adding more and more clients, and we're having really interesting discussions also with operators, as I mentioned In the presentation about potentially consolidating all or parts of their entire affiliation marketing segment. So I'm super excited about this for 2023, but I can't at this point disclose the exact numbers, I'm afraid.



Yes. Thank you. Another one. Hi. Could you walk us through the difference between the EBITDA of \$20,000,000 to \$24,000,000 and free Cash flow of €11,000,000 to €13,000,000 in your guidance.



What will the CapEx consist of in detail? Yes. So this the gap between free cash flow and EBITDA, to some extent, we capitalize at least part of the development for Affiliation Cloud, this is a smaller amount and then essentially the remaining balance relates to current earn out Payables we have in 2023 relating to the end of Casino February and then part of the Kasumba one as well. It relates essentially to paid earnouts for next year.



And I think maybe, Mans, an important point to make in this context, I think this is a very relevant question is that once the final earn out settlement, the final earn out payment to Kasumba is made, our EBITDA will basically equal our cash flow or cash flow will equal EBITDA. So that's a very interesting milestone once we pass that last payout.



Yes. Thank you. Another one here. Segments with lower EBITDA margins grow faster than Affiliation Marketing. Do you see EBITDA margins being lower In 2024 than 2022, I guess the short answer is yes.



That could definitely be an effect of us Having a larger share of lower margin segments within the group, and this is one of the reasons that we Replaced the financial targets a little bit as well and have a bigger focus instead on profitability for the entire group and then the mix of the different segments. We'll see how that plays out in the next couple of years.



Yes. I think just to add to what you said, Molas, I think it's important to Understand that we don't guide long term on margin in that sense. I want to point out that our core affiliation segment is expected to grow in line with or above the previous financial targets that were 10% organic growth. And this is a very high margin segment. And then we simply don't know exactly how much the sub affiliation segment and the picture segments will grow Over the next years, but depending on how that mix plays out, we might have a slightly different margin.



But I don't think you can We're certain to say that it will be lower or higher at this point, unfortunately.



Yes. Thank you. Let's see. Yes. What is your view on the Japanese online casino market in 2020 3, are you expecting the market to grow strongly or regulations a big risk in your opinion?



Also a relevant question. We see Japan as a pre regulated market, Anna, we think that it's very important for RegTech to have not the majority of our revenue, but a significant share of revenue on preregulated markets. This is very opportunistic. Those markets are Growing faster than others and also typically much more profitable than other markets because operators are fighting to gain market share. And once the markets regulate, we come out with pole position.



So I think it's important for us to have a few of these markets, these pre regulated markets to be opportunistic. And of course, pre regulated markets do come with a certain level of risk, Exactly how big that risk is in terms of Japan is really hard to say at this point, but we believe that it's a sustainable market For years to come, and we think it's a nice and growing market. It's turned out to be a nice and growing market for us at least.



Yes. And I believe the last one, Can we consider EBITDA outlook as conservative, lower end of estimate projects near 0% growth? And then the second one, in that one, does the board consider share buybacks? And on the EBITDA outlook, we've given an interval now for the full year. We'll obviously keep you updated on How we progress towards this target throughout the year and with regards to share buybacks versus dividend this year, we're Any alternatives will be taken into consideration as we go along, but for this year, it's a proposal of dividend basically.



Yes. Was that the last question, Mans? That was the last one. Brilliant. So Thank you so much everyone for joining the presentation today and also a special thanks to all the questions.

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Very valid, all of them and a lot of them today. So very happy about that. And we look forward to talking to you again in connection with the Q1 report in May. Thank you very much.