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Raketech

Q3 2024



Speakers



Måns Svalborn
CFO | Raketech



Johan Svensson
CEO | Raketech



Rikard Engberg
Analyst | Carnegie Investment Bank



Hjalmar Ahlberg
Analyst | Redeye



Operator

Prepared Remarks

**Operator**

Welcome to the Raketech Q3 2024 report presentation. For the first part of the presentation, participants will be in listen-only mode. During the Q&A session, participants are able to ask questions by dialing pound key 5 on their telephone keypad. If you are listening to the presentation via webcast, you can ask written questions using the form below. Now, I will hand the conference over to CEO Johan Svensson and CFO Måns Svalborn. Please go ahead.

**Johan Svensson**

CEO | Raketech

Came in at EUR 12.9 million in revenues in Q3, an organic decrease of 39.9% and 38.8% adjusted for the divestment of advisory business. Adjusted EBITDA of EUR 3.1 million, a decrease of 44.6% year-on-year, and EBITDA of EUR 3 million. Total adjusted EBITDA for the first three quarters: EUR 12.5 million. October revenue was EUR 4 million, compared to EUR 7.7 million in October last year, of which EUR 0.4 million from the divested advisory business. We expect Q4 to be slightly stronger than Q3 in terms of adjusted EBITDA. At the moment, it looks difficult to reach the lower end of the previous communicated full-year guidance of EUR 17-EUR 19 million in adjusted EBITDA. However, visibility is limited due to the ongoing operational challenges for our publishers within Raketech Network and around the expectation of a usually stronger second half of Q4 for both casino and U.S. sports.

**Johan Svensson**

CEO | Raketech

Our previously communicated review of our operating model that started during the first quarter of this year has led to realized cost savings of 18% compared to Q1 this year, publisher costs excluded. Free cash flow before earnouts increased to EUR 3.8 million, positively impacted by timing of settlement and trade receivables and payables. This allows us to meet our upcoming earnout commitment of EUR 9.9 million payable up until the first half of next year. The remaining earnout obligation of EUR 20.6 million can be settled at any point in time at our discretion up until September 2026. Next slide. Now let's look at our different business areas more in detail, and we will start with affiliation marketing. Affiliation marketing, our in-house operated assets and strategic partnerships, had a weak quarter with revenues of EUR 6.8 million, a decline of 28.3% compared to Q3 last year.

**Johan Svensson**

CEO | Raketech

The affiliation marketing revenues were stable between the months during Q3 and into November. The Casumba assets accounted for the biggest drop in revenue during the quarter. The assets have sporadically increased in traffic, but the effect from the Google Core update earlier this year is substantial. We have further strengthened the organization working with the Casumba assets, where the founders remain in strategic roles. The Swedish gambling tax rate was increased from 18% to 22% from 1 July. This has somewhat affected the investment willingness of operators when it comes to upfront flat fees, and we saw a decline on our rev share databases during the quarter. Nordic casino markets remained stable or growing during the quarter. Our sports assets declined sequentially compared to a strong comparative period, including UEFA Euro and IPL in Q2, but mainly in line with performance of last year.

**Johan Svensson**

CEO | Raketech

In the beginning of October, we signed a strategic partnership with the founders of a slot portfolio with traffic from South Europe and LatAm. On the next slide, I will speak more about how the strategic partnership works within affiliation marketing. Sub-affiliation revenues amounted to EUR 5.5 million, a decrease of 51% compared to the strong Q3 last year. The gross margin was 25%. Our paid-focused publishers on Raketech Network had operational challenges throughout the quarter with our Google ad campaigns. We have seen some improvement in traffic and revenue in Q4. These operational challenges are largely due to external factors beyond our immediate control. Our relationships with the paid publishers and operators are strong, and we are standby and ready to scale up the business when the market conditions improve. Affiliation Cloud, our in-house developed sub-affiliation platform, continued to deliver year-on-year organic growth.



Johan Svensson
CEO | Raketech

A good portion of organic growth comes from exclusive partnerships, which I will speak more about later in the presentation. We will continue to invest in Affiliation Cloud to be able to onboard more partners and scale further. Betting tips and subscription. End of July, we completed the sale of a land-based betting tips advisory business. This divestment led to a revenue decline of 29.2%. But if you adjust for the sold assets, we had 24% organic growth for the remaining digital tips to business year-on-year. Going to the next slide. Starting with affiliation marketing. Today, I will speak about strategic partnerships. This year, we have entered into two strategic partnerships within affiliation marketing, the latest with the founders of a slot portfolio.



Johan Svensson
CEO | Raketech

The purpose of the partnerships is to team up with entrepreneurs with a good track record of operating affiliate products, where they could benefit from Raketech's infrastructure and size, and where Raketech could secure product competence. In the partnerships with the slots assets, the founders take over the daily operations of the assets, including product development, content, and SEO strategy. They use Raketech's central resources as sales, finance, and different IT services. These partnerships are operated with similar gross margin as if we would have operated the assets fully in-house. Next slide. Sub-affiliation and exclusive partnerships. In Q3, we closed an agreement and went live with an exclusive partnership with a large U.S. operator on Affiliation Cloud. The partnerships are structured in a way where we will handle operations and relations, including the negotiations of all Tier 3 and Tier 3 affiliates and publishers who like to promote the operator.



Johan Svensson
CEO | Raketech

The partnership with a U.S. operator was the fourth brand who chose Affiliation Cloud as their exclusive sub-affiliation partner. We believe a lot in these types of partnerships instead of a traditional affiliation model. In the traditional affiliation model, each operator needs to negotiate and agree a deal with each affiliate to secure exposure and distribution. The operator must have its own affiliate team with local expertise for each market to secure compliance. At Affiliation Cloud, the operator gets access to multiple affiliates through one agreement. Our publisher team takes care of the commercial negotiations and secures the distribution, including compliance. We pay the affiliates their commission on demand to secure good cash flow for our publishers. Betting tips and subscription. At the end of July, we completed the sale of a land-based betting tips advisory business to be able to focus on the digital tipster business.



Johan Svensson
CEO | Raketech

The difference between a land-based advisory and our digital tipster business is that the focus of a land-based was to generate the lead online but drive and close the sales offline. The digitization of the tipster business has allowed us to continue generating leads online and to convert them online. With the significant traffic volumes on our sites, we can seamlessly increase monetizations on our tipster assets at scale, which will be our focus going forward. Our goal is to continue growing our digital footprint across all our tipster assets in an accelerated fashion. Now over to our CFO, Måns.



Måns Svalborn
CFO | Raketech

We saw total revenues of EUR 12.9 million, which represents a decrease for both affiliation marketing and sub-affiliation. On your left side, we have total revenues split on three business areas, and on the right side, total revenues distributed on cluster regions.



Måns Svalborn
CFO | Raketech

Starting with affiliation marketing, which constitutes 53% of total revenues, we did see sporadic traffic and ranking increase for the Casumba assets during the quarter, but they are not showing any sustained recovery yet, pulling down revenues compared to last year and also somewhat from Q2. Nordics held up relatively well and are essentially in line with Q2 and last year, with Sweden performing softer while other Nordic regions were up or stable. Visible also in Q2 specifically is a natural decrease for our sports assets following high activity in Q2 following the IPL and UEFA Euro. Sub-affiliation represents approximately 42% of total revenues in Q3, as we highlighted in Q2. Activity slowed down quite significantly in the quarter with operational limitations for specifically our network publishers.

**Måns Svalborn**

CFO | Raketech

Our relationship with publishers is still stable, and performance has stabilized from a low point at the end of the quarter, indicating some improvement in Q4. Visibility is, however, to some extent limited. As a last point on this slide, for the U.S., we concluded the sale of the ATS advisory at the end of July. This means revenues from this area are only including July in the quarter. A like-for-like comparison of last year, meaning excluding ATS advisory, we have an organic growth of 20% plus for a digital subscription, which is positive to see. Next slide. This slide shows revenue mix and vertical split. Just a couple of quick points on this slide. First, the variation in CPA is largely driven by the lower activity in sub-affiliation. This area is predominantly CPA-heavy, driving the decline from a very strong Q3 of last year.

**Måns Svalborn**

CFO | Raketech

Secondly, flat fees are on par with the previous quarter, which is positive, meaning that our partners continue to see good value in our traffic. As highlighted in previous quarters, we have an ongoing and continuing review of all our products and business area to ensure that we are operationally efficient. From a high point in Q1 with regards to cost, we initiated a review and cost-cutting initiative, and we are now seeing these initiatives realizing, with an overall decrease in total cost excluding publisher cost of about 18% from Q1. As we move along, we will continue to tweak and fine-tune our operating model in line with the overall strategy. Next slide. Adjusted EBITDA was 3.1, mainly impacted by the lower performance within affiliation marketing compared to last year.

**Måns Svalborn**

CFO | Raketech

Despite lower activity within sub-affiliation, the gross profit was strong in the quarter at 25% in this specific business area and affected primarily our higher revenue share. The realized cost savings that I mentioned on the previous slide additionally somewhat offset the decrease in revenues. On the right-hand side, free cash flow before earnouts is higher than reported EBITDA. I mentioned in the previous call last quarter that we were expecting a catch-up in H2, and we are seeing this in Q3. This primarily relates to timing effects from paying publishers in sub-affiliation, but also timing of settlements from operators. Overall, free cash flow before earnouts is expected to remain in line or slightly above EBITDA for the full year. Moving along to the next slide.

**Måns Svalborn**

CFO | Raketech

With regards to our outstanding earnouts, the last part of the Casumba earnout was finalized at the end of July, meaning the final amount is now fully fixed. For the next upcoming 12 months, or more specifically up until the first half year of next year, we will settle EUR 9.9 million. This will be settled in cash using our current net cash position, expected free cash flow, and our existing facility we have in place. The remaining EUR 2.6 million, as we have communicated previously, can be settled at any point in time up until September 2026 at our discretion. We also have, at our discretion, the possibility to settle part of this in shares. Post-September 2026, there are no other outstanding commitments related to any acquisitions. Thank you, and over to Johan.

**Johan Svensson**

CEO | Raketech

Thank you, Måns. To conclude, revenues of EUR 12.9 million and Adjusted EBITDA of EUR 3.1 million.

**Johan Svensson**

CEO | Raketech

Cost savings in Q3 of 18% compared to Q1 this year, excluding publisher costs. We have continued our evaluation of all our products and business areas to better position ourselves for sustainable long-term growth and operational efficiency. These initiatives have resulted in a successful sale of ATS advisory and the formation of two strategic partnerships within affiliation marketing, as well as a couple of new exclusive partnerships within sub-affiliation. With these words, we now open up for Q&A.

Q&A



Operator

If you wish to ask a question, please dial #5 on your telephone keypad to enter the queue. If you wish to withdraw your question, please dial #6 on your telephone keypad. The next question comes from Hjalmar Ahlberg from Redeye. Please go ahead.



Hjalmar Ahlberg

Analyst | Redeye

Thank you. Just the first question on the kind of start to Q4 here.



Hjalmar Ahlberg

Analyst | Redeye

I mean, you say October was kind of soft, and then you see some improvement in November. I guess it's difficult to say, but do you think it's in your view, is it kind of does it look sustainable, or is it kind of typical volatility that you can see in the business?



Johan Svensson

CEO | Raketech

Hi, Hjalmar. Good morning. Yeah, yeah, October amounted to EUR 4 million in revenue, and we then have sold the ATS advisory, which was EUR 0.4 million last year in October. And the big drop in revenue is on the Raketech network, and we have seen some improvement, but we are not back at the levels we were a year ago.



Hjalmar Ahlberg

Analyst | Redeye

All right. And regarding sub-affiliation operator challenges, do you think, do you have any potential view on improvements here or when this could resolve, or is that kind of waiting and seeing there?



Johan Svensson

CEO | Raketech

It's a bit out of our control, but we stay strong with the publishers and the operators and are ready to scale up when the market conditions are improving. Yeah, and now I'm talking about the Raketech Network, the paid part of sub-affiliation.



Hjalmar Ahlberg

Analyst | Redeye

Yes. And I mean, you say it's difficult to reach the guidance probably, but I mean, if November were to improve and December is to be, I mean, in line with historical typical post-existing reality, is it still possible, or do you think it's very difficult to end up in the lower end there?



Johan Svensson

CEO | Raketech

At the moment, as we stated, it looks difficult, but we don't have full visibility since some of these operational challenges within Raketech Network is out of our control.



Hjalmar Ahlberg

Analyst | Redeye

Okay.



Hjalmar Ahlberg

Analyst | Redeye

And for Casumba, I mean, you state that it's still working on the recovery there, but could you give some kind of view maybe on the kind of general outlook for online casino in Japan? I guess one operator divested their Japanese assets, I understood. Do you think that there's a big change that's ongoing in the market as well in terms of the online casino business environment?



Johan Svensson

CEO | Raketech

We follow the market closely, and there have been operational challenges for the operators as well. When we're speaking to our partners, we have heard that they had issues with payment providers, etc., but yeah, we still see a high demand from operators to acquire traffic, but we haven't recovered from the Google Core update earlier this year. We have seen some sporadically increasing traffic, but yeah, we're still far from the traffic levels pre the Google update.



Hjalmar Ahlberg
Analyst | Redeye

All right.



Hjalmar Ahlberg
Analyst | Redeye

Then a question on Sweden. I mean, you mentioned that, of course, increased taxes have some negative impact on revenue share and potentially also CPA, I guess. Would you say that the market has kind of reached a new level, a lower level, or do you think there's still uncertainty in terms of how operators will do marketing and so on for this?



Johan Svensson
CEO | Raketech

Sweden as a total market is growing year on year compared to last year, but yeah, the tax increase has somewhat affected our rev share deals. We, of course, need to share the tax increase with the operators. And when a tax increase applies, it makes some operators who are a little bit more conservative with their investments. But we are one of the large affiliate companies in Sweden, and it's a very important market for us where we have good relations with operators.



Hjalmar Ahlberg
Analyst | Redeye

Right. Thanks.



Hjalmar Ahlberg
Analyst | Redeye

And then just a question on the U.S. Affiliation Cloud deal here. I mean, how big potentially is this deal? I guess you can't give the numbers, but it sounds like it's an important operator. So just maybe you can give some indication of how much it could impact, I mean, in the next couple of years in terms of upside potential.



Johan Svensson
CEO | Raketech

Not in absolute numbers, but of course, the U.S. is a huge market expecting to grow significantly over the next years. And yeah, to secure a partnership like this, it shows that we have a good service which operators value. And yeah, so we are optimistic for, yeah, to grow sub-affiliation in the U.S., definitely.



Hjalmar Ahlberg
Analyst | Redeye

All right. And just a final question on your earnout settlement here. I mean, it sounds like you have liquidity enough to pay the next payment of EUR 9.9.



Hjalmar Ahlberg
Analyst | Redeye

And how do you look at the final payment there? If you look at your current cash generation, what's your flexibility on being able to do that payment without any issues?



Måns Svalborn
CFO | Raketech

No, we think we have quite a lot of flexibility. There's flexibility around, obviously, the timing of the terms of the settlement, and it's quite a long term for that settlement as well. So at the moment, we think we have quite a lot of flexibility around it.



Hjalmar Ahlberg
Analyst | Redeye

All right. Thank you very much.



Johan Svensson
CEO | Raketech

Thank you, Hjalmar.



Operator

The next question comes from Rikard Engberg from Carnegie Investment Bank. Please go ahead.



Rikard Engberg

Analyst | Carnegie Investment Bank

Good morning, guys.



Måns Svalborn

CFO | Raketech

Morning.



Johan Svensson

CEO | Raketech

Good morning.



Rikard Engberg

Analyst | Carnegie Investment Bank

So my first question is regarding the gross margin in sub-affiliation. During the last quarter, increased quarter-over-quarter, is there any reason for that, or is it just because of lower revenues in the quarter?



Måns Svalborn

CFO | Raketech

No, the amount of rev share increased a little bit in the quarter, pushing that margin up a little bit. Then it depends a little bit on which publisher increase and decrease in the quarter as well, or month by month. So that has a little bit of an impact as well. But I think I mentioned last quarter that even last quarter was a little bit on the high side, and it's again a little bit on the high side. So we're not really targeting to be on 25%, or we can go lower as well. So it is a little bit on the high side at the moment.



Rikard Engberg

Analyst | Carnegie Investment Bank

Okay. So given that if revenue were to come back, the gross margin would go down since it would increase the CPA amount in the mixture.



Måns Svalborn

CFO | Raketech

Likely that will be the case, yes.



Rikard Engberg

Analyst | Carnegie Investment Bank

Okay. Great. And also one question.



Rikard Engberg

Analyst | Carnegie Investment Bank

There is a new Google update out now. From what I've heard, it's quite similar to one this spring. How has this affected your assets? Is it in a similar way to the big one in spring, or is it improving?



Johan Svensson

CEO | Raketech

It's too early to draw any conclusions. It was rolled out earlier this week. So yeah, we haven't seen any big impact yet on any of our assets.



Rikard Engberg

Analyst | Carnegie Investment Bank

Okay. Thank you. That was all for me.



Johan Svensson

CEO | Raketech

Thank you, Rikard.



Operator

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



Johan Svensson
CEO | Raketech

Good. I think we have some questions.



Måns Svalborn
CFO | Raketech

Yeah. We have a few written questions. One is related to the cash settlement related to the sale of ATS Consultants, and that's been done already, and if it's included in the Q3 cash flow.



Måns Svalborn
CFO | Raketech

We communicated this in the press release that there is an upfront payment that is included in Q3, and then there's a revenue share split ongoing with that counterpart. There's a question on how we're working with the Casumba assets to turn them. In terms of Google Core update and also the one in August, any assets affected? I think this one is similar to the question that Rikard Engberg asked. But if there's anything you only want to add specifically around the Casumba assets operationally.



Johan Svensson
CEO | Raketech

No, it's yeah, first, when your assets drop in ranking from a large Google update, then you have to do the analysis, which we did a comprehensive audit after the Google update was finished in April, and that leads to a new strategy how to recover.



Johan Svensson
CEO | Raketech

It's a lot of hard work, but it also needs to make sure that you prioritize and do the right things. So it's a work in progress, but it's very hard to expect when it gives results. But yeah, during the quarter, we saw some sporadic traffic increases, but still far from the traffic levels pre the Google update.



Måns Svalborn
CFO | Raketech

Yeah. Then there's a question around what will be the cost savings on an annual basis run rate. And like I said in the presentation, we will continuously review and tweak a little bit our operating model as we move along. But what we can say up until now is at least, yeah, the latter half of Q3 is sort of a good standing point at the moment, and then we'll continue to review ongoing and tweak a little bit, as I mentioned in the call. Yeah.



Måns Svalborn
CFO | Raketech

And then there's a couple of questions on Outlook Q4 from a revenue perspective and also Q1 of 2025. And we'll stick with the comments we've included in the presentation here on the Outlook and keep you updated as we go along. Yeah. And I think that's more or less it.



Johan Svensson
CEO | Raketech

Yes. Thank you all for listening in, and see you again in February. Thank you. Bye-bye.