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Raketech

Q1 2024



Speakers



Hjalmar Ahlberg

Equity Research Analyst | Redeye



Johan Svensson

Acting CEO | Raketech



Måns Svalborn

CFO | Raketech



Operator



Rikard Engberg

Comissioned Research | Carnegie Investment Bank

Prepared Remarks



Operator

Welcome to the Raketech Q1 2024 Report Presentation. For the first part of the presentation, participants will be in listen-only mode. During the questions and answers session, participants are able to ask questions by dialing five pound on their telephone keypad. Now I will hand the conference over to the speakers Acting CEO Johan Svensson and CFO Måns Svalborn. Please go ahead.



Johan Svensson

Acting CEO | Raketech

Good morning and welcome. My name is Johan Svensson, and I'm the Acting CEO of Raketech. Today, CFO Måns Svalborn and I are here to present Raketech's Q1 report. We will start with our Q1 financials and our revised full-year guidance. Raketech delivered EUR 90 million in revenues in Q1, representing an organic growth of 20%. Adjusted EBITDA of EUR 5.1 million and EBITDA of EUR 4.3 million after one-time cost due to restructuring. Sub-Affiliation continued to be the contributor to our organic growth, while decline within Affiliation Marketing impacted our EBITDA significantly. As reported in the trading update 1st of May, we have revised our full-year guidance from EUR 24 million-EUR 26 million in EBITDA to around EUR 20 million in adjusted EBITDA. Free cash flow before earnout payment is estimated to come in just below adjusted EBITDA. Now let's look at our different business areas, and we will start with Affiliation Marketing.



Johan Svensson

Acting CEO | Raketech

Affiliation Marketing, our in-house operated assets, had a weak quarter with revenues of EUR 8.8 million, a decline of 18.5% compared to Q1 last year. Mainly affected by strong comparison numbers in Sweden and negative impact of a Google Core update for our Casumba assets. The Google Core update started during the quarter and was completed in April. The traffic situation for Casumba has stabilized, but at a lower level compared to the start of the quarter and last year. One of the assets was more affected than the others. We are working hard together with the founders on various initiatives to improve the situation and recover the lost traffic. Right now, it's still difficult to project when we can see a full recovery. Our Nordic sport assets had a strong quarter.



Johan Svensson

Acting CEO | Raketech

The three-year partnership starting April 1st was closed with Danske Spil, and we see a high demand for sports traffic and expect an additional boost during the second quarter with the upcoming UEFA Euro. Also, the Affiliation revenue from our U.S. tipster assets had its best quarter so far, still low levels but promising development. Sub-Affiliation. Sub-Affiliation revenues amounted to EUR 9 million and increased 150% compared to Q1 last year, but a decline in top line compared to previous quarter. For the first time, we are now reporting gross profit, and we had a strong quarter with a 23% gross profit margin. The foundation of Sub-Affiliation is that we help our affiliates and publishers with selling their traffic to the operators and optimize their business. Today, we have two different products, Raketech Network and Affiliation Cloud.



Johan Svensson

Acting CEO | Raketech

Raketech Network is a platform focusing on paid traffic, and Affiliation Cloud focusing on affiliates with product-generating organic traffic. The development of Affiliation Cloud continues, both in terms of improved data quality and other features. The plan is to migrate the Raketech Network business into Affiliation Cloud during the second half of this year and to have one product and platform for both paid and organic affiliates. Moving on to betting tips and subscription. Our U.S. tipster sales delivered EUR 1.2 million in revenue during Q1, a 15% decline compared to Q1 last year. We are actively reviewing our strategy for this business area. On next slide, I will give you more details about the U.S. tipster business. Going to the next slide and our strategic initiatives for our different business areas.



Johan Svensson
Acting CEO | Raketech

I will start with Affiliation Marketing, our in-house-owned assets where we had our second consecutive quarter with negative organic growth. We have recently changed our operational model. We have tightened down the number of product teams to secure the right competence and strategy for each product. This restructuring has also resulted in cost savings. To be able to secure the right competence, we are open for new partnerships and work with entrepreneurs with a proven track record of Affiliation Marketing. This is something Raketech has done successfully in the past. As mentioned, our Casumba assets took a hit in the latest Google Core update, and a part of our strategy to turn around Affiliation Marketing is to lower the SEO dependency. It means an extra focus on product with a higher portion of direct traffic.



Johan Svensson
Acting CEO | Raketech

An example of this is our TV Sports Guides, where we saw a good boost in traffic and sales during the quarter. Another growth initiative is to increase our CRM activities. To continue to develop CRM will be important to increase the value of each lead and something we will continue to invest in. Customized partnerships with operators. Our ambition is to work closer in longer contracts with our preferred partners, where we have the opportunity to work long-term with a content strategy to increase the conversion and delivered value. During the first quarter of the year, we closed two longer contracts with Danske Spil and VBET in Denmark and an exclusive deal with a new Swedish casino operator. Sub-Affiliation. As mentioned in the Q4 presentation, the focus is to expand to new markets and onboard new publishers.



Johan Svensson
Acting CEO | Raketech

During the quarter, we launched U.S. on Affiliation Cloud with a promising start. The development of the Affiliation Cloud platform is progressing with a target to migrate all Sub-Affiliation traffic and revenue to the platform during the second half of the year. Betting tips and subscription. Our U.S. tipster business today consists of two models, Advisory and Multi-Capper. Both of these models are fed with leads from our websites. Advisory is a manual process with dependency on the performance of our U.S.-based tipster sales team that work directly with the end users, our customers. The Multi-Capper model is online-based and integrated on our websites. Boosts with leads are generated, converted, and managed online on our products. Today, the majority of our betting tips and subscription revenue still comes from Advisory, but we have seen a good organic growth on our Multi-Capper platform.



Johan Svensson
Acting CEO | Raketech

This is a result of our digitization efforts, which have been focused on increased traffic volumes, improved conversions on our products, and dedicated marketing initiatives. We are actively reviewing our U.S. betting tips and subscription strategy. We will continue to focus on accelerating the Multi-Capper business as it's gained much more efficiency compared to the Advisory business. The result of our efforts to digitize the tipster business has also led to increased affiliate revenue from the U.S. sportsbook operators. Q1 was a record quarter in terms of affiliate revenue from the Multi-Capper platforms. Now over to CFO Måns Svalborn.



Måns Svalborn
CFO | Raketech

Thank you, Johan. Total revenues increased with 20% from last year, driven by an increase for Sub-Affiliation, partly offset by a softer development for Affiliation Marketing. Sub-Affiliation represents approximately 47% of total revenues in Q1, more or less in line with what we've seen the last few quarters. Although we see a sequential decrease for Sub-Affiliation from Q4 of last year, we see good appetite from new and existing publishers. Affiliation Marketing decreased from last year, driven primarily by a weaker result from the Casumba assets and our Swedish assets, as Johan covered earlier. Our other larger assets in other markets show stable to positive performance. On the right-hand side, a quick note on our revenue mix for revenue share, CPA, and flat fees. In absolute terms, we are growing revenue share, which is good, and we see specifically an increase in revenue share from our Sub-Affiliation area in Q1.

**Måns Svalborn**

CFO | Raketech

The majority, however, of the revenues within Sub-Affiliation is CPA, which has driven the overall increase in CPA for the group over the last few quarters. As for the regional split and starting with the Nordics, the shifts we have seen for the Nordics between the quarters are essentially an effect of the growth within Sub-Affiliation. The decrease in Q1 versus Q4 relates also primarily to Sub-Affiliation, with some effects of seasonality within Affiliation Marketing, which we normally see from Q4-Q1. Similar to previous quarters, the main drivers within the rest of the world relate to Casumba and, again, Sub-Affiliation. The vertical split on the right-hand side shows casino growing from last year, representing 82% of total revenues in Q4.

**Måns Svalborn**

CFO | Raketech

The largest shifts we have seen within the verticals are driven by the growth in Sub-Affiliation, and we will continue to see Sub-Affiliation contributing to both sports and casino throughout the quarters. As Johan, however, covered earlier, we are actively focusing on growing and monetizing on our high-traffic in-house sports assets, and we expect to see positive development here going forward. In the shorter time frame, we expect to see a positive result from the upcoming UEFA Euro. EBITDA adjusted for costs relating to restructuring amounted to EUR 5.1 million. The non-recurring cost we adjusted for relates to our review of our operating model that Johan mentioned, as well as costs related to the change of CEO in early Q1. As highlighted, EBITDA was primarily affected by a softer performance from our Casumba assets, as well as tough comparisons for our Swedish assets.

**Måns Svalborn**

CFO | Raketech

We did, however, see a strong contribution of a 23% gross profit within Sub-Affiliation. This is higher than previous quarters, driven by a positive development for revenue share. As we move along, we'll see the margin vary depending on primarily revenue share. Worth mentioning, however, is that our primary focus is to ensure we grow this area from the perspective of increasing gross profit in absolute terms. On the right-hand side, we did see a strong free cash flow before earnouts. I have mentioned during the last couple of quarters that we were expecting a catch-up from improved working capital stemming primarily from trade receivables, which materialized during Q1. Another point to make here is that we settled about EUR 13 million in earnouts to Casumba during the quarter. With regards to the upcoming earnouts, moving on to the next slide.

**Måns Svalborn**

CFO | Raketech

As I mentioned on the previous slide, we settled EUR 13 million of the Casumba earnout during the quarter, bringing the total outstanding consideration at the end of the quarter to EUR 34 million. For the next 12 months, we have upcoming earnouts to settle of about EUR 14 million. An important point to make here is that the remaining EUR 20 million can be settled at any point in time up until September 2026, meaning there is a lot of financial flexibility for us. Another point to make is that our option to settle part of the earnout in shares is also at our own full discretion, adding even more flexibility. In conclusion, given our current cash flow estimate for the year, our free cash flow is well above upcoming estimated earnout settlements. Back to you, Johan.

**Johan Svensson**

Acting CEO | Raketech

Thank you, Måns, to conclude here. Affiliation Marketing, it is our full focus to turn around our declining in-house assets, including the Casumba products, to deliver long-term organic growth. Here we work in parallel with various initiatives. At the same time, we see a strong appetite for sports traffic in the Nordics, where we are investing in our products and in new content to meet the demand from the operators. Sub-Affiliation, despite the drop in revenue compared to Q4, we saw a stable performance during the quarter with an increased gross profit margin. U.S. tipster and subscription. The plan is to continue the digitization of the tipster business and increase revenue from Affiliation Marketing on the tipster assets. We are also reviewing our strategy and the advisory part of the business. Outlook. Looking at April, the revenue came in at EUR 5.9 million, which is in line with April last year.

**Johan Svensson**

Acting CEO | Raketech

However, higher share of revenue from our lower-margin Sub-Affiliation business. Guidance for 2024. First of May, we revised our guidance for the full year to around EUR 20 million in adjusted EBITDA with free cash flow before earnout, just below the EBITDA. With these words, we now open up for Q&A.

Q&A



Operator

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



Hjalmar Ahlberg

Equity Research Analyst | Redeye

Thank you. Yeah, to start with a few questions on the Google update there. Can you explain a bit more about how it impacted? I mean, have you kind of identified it? You say you're working on improving there, but could you give some more flavor on what you're doing and what you think happened there for the assets that were most impacted, so to say?



Johan Svensson

Acting CEO | Raketech

Yeah. Hi, Hjalmar. I guess you refer specifically to the Casumba assets?



Hjalmar Ahlberg

Equity Research Analyst | Redeye

Yep.



Johan Svensson

Acting CEO | Raketech

Yeah. We're working very hard together with the founders and the Casumba team. When this happened, first you start with an analysis to try and find the reason behind the drop in ranking and traffic. When you're done with that, we try to improve our content and product. It's both on-page and off-page SEO. Furthermore, we are working on different initiatives to boost our traffic besides recovering from the search traffic. One example for the Casumba asset is an increased focus on CRM activities.



Hjalmar Ahlberg

Equity Research Analyst | Redeye

All right. Do you think that, I mean, if you look at competition, for example, for the Casumba assets, have you lost market share, or is it a general negative impact for most in that market?



Johan Svensson

Acting CEO | Raketech

We've lost traffic. We have, of course, lost some market share in terms of new traffic, yes. But we also see different types of assets ranking very, very well at the moment in those specific markets.



Hjalmar Ahlberg

Equity Research Analyst | Redeye

All right. And, I mean, it seems like your other business doing well, Sub-Affiliation seems good. But do you see any impact, I guess, from your affiliate clients, so to say, from Google Update? Or was it mainly this asset that you saw the impact on?



Johan Svensson

Acting CEO | Raketech

Outside the Casumba asset, we see a stable performance for other markets.



Hjalmar Ahlberg

Equity Research Analyst | Redeye

Yeah. And you mentioned that you want to kind of lower risk for similar going forward and working more with direct traffic, so to say. I mean, is this a big change that will take time to do? Or, yeah, how will this work out, do you think, over the coming quarters? And how much can you lower the risk from this over the coming years?



Johan Svensson

Acting CEO | Raketech

Yeah. To lower the SEO dependency, we will always work a lot with SEO activities. But I think the key is to drive traffic from multiple channels here. So we are focusing on products with a higher portion of direct traffic. At the same time, we like to improve our CRM activities. So it's a mix, but it takes time to develop new channels of traffic.

**Hjalmar Ahlberg**

Equity Research Analyst | Redeye

All right. In terms of the trading update and the guidance, I mean, we know January revenue. I guess if you just do an average of February and March and then comparing that to April, it looks like April is kind of bottoming out compared to March. Can you give some flavor on that? Was March the kind of bottom, and you're up in April versus March? Or is that difficult to say in the short term?

**Måns Svalborn**

CFO | Raketech

It's a bit difficult saying the short term, but March and April were very similar in terms of revenue and also the split between Affiliation Marketing and Sub-Affiliation. April, I can add as well, the share of Sub-Affiliation revenue was very comparable to what we saw in Q1 as well. So even though we sort of matched the revenue compared to last year, as Johan pointed out, there is a larger share of Sub-Affiliation revenues. But then bearing in mind the rest of the year as well, we obviously have the Euro coming up, which we expect positive effects from. And then Q2 normally is a slower quarter for us, with an expectation for that to pick up in H2, at least based on historic that we've seen before.

**Hjalmar Ahlberg**

Equity Research Analyst | Redeye

Right. Yeah, that's good. And the guidance, I mean, you say you based it on current trading, I guess, so you don't really consider that and recover from the Casumba assets with the guidance that you have now?

**Måns Svalborn**

CFO | Raketech

It's different aspects in that estimates. There is some assumption of recovery. Timing is obviously a bit difficult to say on the recovery. There is some assumption in it. Then, obviously, it includes the initiatives Johan mentioned earlier as well. The addition as well, again, the euro effect and the H2 being normally a stronger season for us. The sports season in the U.S. opening up and stuff like that.

**Hjalmar Ahlberg**

Equity Research Analyst | Redeye

All right. A question on your optimization program. I mean, how should we see this going forward? Do you think we should see kind of absolute decline in OpEx, or is it more like you can see more operating leverage if you grow top line and gross profit?

**Måns Svalborn**

CFO | Raketech

The main point is to achieve operating leverage. That's the main point. Then, obviously, there is an element of cost savings as well. This has been factored in in the full-year guidance. And having said that, even though this was a one-time initiative we did during the quarter, this is something we'll continue to look at, primarily most from an OpEx perspective, just to make sure this is something we do, obviously, continuously, but make sure we are as efficient as possible as we move along.

**Hjalmar Ahlberg**

Equity Research Analyst | Redeye

Okay. That was all the questions for me. Thank you very much.

**Måns Svalborn**

CFO | Raketech

Thank you.

**Operator**

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

**Rikard Engberg**

Comissioned Research | Carnegie Investment Bank

Good morning, guys.

**Måns Svalborn**

CFO | Raketech

Good morning.



Johan Svensson
Acting CEO | Raketech

Good morning.



Rikard Engberg
Comissioned Research | Carnegie Investment Bank

I have one question regarding the gross margin in the Sub-Affiliation segment. It came in on 23% this quarter. Is this number unusually high due to a high number of revenue share, or is it this level that we should look at as a standard going forward?



Johan Svensson
Acting CEO | Raketech

No, it is higher than what we've seen previous quarter. It is, as you're right to point out, I wouldn't say it's exclusively related to revenue share because that's not the truth, but it's part of it. We are actively looking to focus, and we have been, but it will be a continued focus for us to make sure that we grow in absolute terms in profitability. Revenue growth is obviously important for us, but we want to make sure we optimize profitability within that area.



Rikard Engberg
Comissioned Research | Carnegie Investment Bank

Also, my last question, if you can shed some light on the development on Affiliation Cloud and how it has developed and has been, how to say, how does external clients view the product during the quarter?



Johan Svensson
Acting CEO | Raketech

Yeah. Affiliation Cloud developing in the right direction, definitely. Now, we took the decision here to migrate Raketech Network into Affiliation Cloud to have one platform where we both could give service to paid publishers, affiliates, and affiliates driving organic traffic. So yeah, we full focus on development and improving product, both in terms of data features, data quality, and other features.



Rikard Engberg
Comissioned Research | Carnegie Investment Bank

One final question there. This migration towards Affiliation Cloud, will that affect your OpEx, so to say, or lower it?



Rikard Engberg
Comissioned Research | Carnegie Investment Bank

Sorry, the migration of network into Affiliation Cloud, if that will affect our OpEx?



Måns Svalborn
CFO | Raketech

Yeah, to some extent, it's a marginal effect, but to some effect, it will obviously be more streamlined in our organizational setup, I think, once we get this done. So that will have a marginal effect from us, but nothing super material.



Rikard Engberg
Comissioned Research | Carnegie Investment Bank

Okay. Great. That was all from me.



Måns Svalborn
CFO | Raketech

Thank you.



Johan Svensson
Acting CEO | Raketech

Thank you again.



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.



Måns Svalborn
CFO | Raketech

All right. So we have a few written questions coming in. The first one is potentially more of a board question, but I'll let you say something about it, Johan. So you pull back the dividend, or are you considering buybacks at these price levels?



Johan Svensson
Acting CEO | Raketech

Yeah. Yeah, it's up to the board and the shareholders to decide.



Måns Svalborn
CFO | Raketech

Yep. Another one relates to the development on the Swedish market. Could you provide some color on the development in the Swedish market? Do you think the lower performance is related to asset-specific performance or a result of lower operator appetite for investment on the Swedish market?



Johan Svensson
Acting CEO | Raketech

Yes. Swedish market, in Q1, we had 2024. We had a tough comparison compared to Q1 2023. We had a very strong start of last year in Sweden. So tough comparison this year in Sweden, but we see stable performance compared to Q2 last year compared to Q1. Sweden as market had a negative growth last year. We can see now in Q1 this year that Sweden as total market had a 2% growth. So it's good to see that Sweden is growing again as total addressable market, definitely. And yeah, Sweden is an important market for us.



Måns Svalborn
CFO | Raketech

Thank you. Another one. We've covered this briefly, but maybe you want to add something, Johan. So a quote from the CEO comment: "Working closely with Casumba's committed founder, we have implemented SEO recovery strategies and improved content quality." You also talk about lowering SEO dependency. Taken together, this suggests that the previous strategy was more SEO-based and with insufficient quality, the kind of strategy that Google has long said it will punish. Would it be correct to say that the previous strategy maximized short-term traffic increases and payout to Casumba's former owners?



Johan Svensson
Acting CEO | Raketech

Yeah. We don't comment on a specific SEO strategy for any markets. But yeah, it's correct. We see no decline in Affiliation Marketing. And a part of the turnaround here is to lower SEO dependency, and that's not only for the Casumba assets, but for all assets to add more type of traffic channels and revenue streams. And the second question was about would it be correct to say that there was something about the earnout as well?



Måns Svalborn
CFO | Raketech

Yeah, there's a number of questions on the earnout and the specific agreement. We can't go into the specifics on the agreement and so forth. There is one question around how the Casumba earnout has been calculated and that we can cover. So the majority of the earnout, the final calculation of the majority of the earnout was done end of Q4 2023. And the remaining one we have is a profit share up until July of this year. But that's, in relative terms, a small part of the earnout. And then another one on intangible assets. It looks like their databases are fully amortized at the end of Q2, meaning that the level of amortizations will decline as we move along.



Måns Svalborn
CFO | Raketech

This is true, so at least related to the Casumba assets, which we are amortizing quite heavily and have been amortizing quite heavily, they have peaked from an assets perspective. So that will decline as we move along. They are amortized over three years. So those will be decreased with time as we move along here. I think the last one we have, are you still optimistic about the Casumba assets long term? Do you expect a return to growth next year?



Johan Svensson
Acting CEO | Raketech

We're confident in our strategy of turning around Affiliation Marketing, and that includes the Casumba assets. But yeah, right now, we don't know when we can project a turnaround for the Casumba assets specifically, but we're confident in our strategy.



Måns Svalborn

CFO | Raketech

Yeah. I'm sorry, one came in just a few seconds ago. Your working capital did decrease in Q1. Is the end of Q1's level the new normal level to expect going forward if your revenue stays at the current levels? So yes, they correlate. It's a little bit tricky to specifically forecast it because it depends on timing of payment to publishers and operators, which can shift a little bit between the quarters, but there is a correlation for sure.



Johan Svensson

Acting CEO | Raketech

Good. Thank you all for listening in, and thank you for all questions. We speak again in August. Thank you. Have a good day.