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Raketech

Q4 2023



Speakers



Hjalmar Ahlberg
Equity Analyst | Redeye



Johan Svensson
Acting CEO | Raketech



Måns Svalborn
CFO | Raketech



Operator



Rikard Engberg
Equity Research Analyst | Carnegie Investment Bank

Prepared Remarks

**Operator**

Welcome to the Raketechn Q4 2023 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 £5 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 | Raketechn

Good morning and welcome. My name is Johan Svensson, and I'm the Acting CEO of Raketechn. Today, CFO Måns Svalborn and I are here to present Raketechn's Q4 2023 and end-of-year report. For those who don't know me, I'm one of the co-founders of Raketechn and was the CEO prior to the IPO in 2018. After the IPO, I have continued to work full-time with Raketechn in different roles. The last two years, I've been CCO. I'm excited and looking forward to this new role. Moving slide. We start with our Q4 financials. To begin with, we are pleased to conclude that we have presented an end-of-year in line with our previous guidance. Raketechn delivered EUR 22.8 million in revenues in Q4, representing an organic growth of 45.3%. Subaffiliation continued to be a strong contributor to our organic growth. Full year's revenues amounted to EUR 77.7 million.

**Johan Svensson**

Acting CEO | Raketechn

The EBITDA in Q4 landed at EUR 6 million and for the full year at EUR 23.6 million. Now let's look at our different business areas, and I will change slide. We will start with affiliation marketing. Affiliation marketing, our in-house owned assets, slowed down somewhat during Q4 with revenues of EUR 9.7 million compared to EUR 10.3 million in Q4 2022. This is primarily an effect of softer performing casino assets in Sweden together with a weaker Swedish krona, which have had a negative impact on our Swedish revenue. Furthermore, the fourth quarter 2022 had a positive impact from the FIFA World Cup. Our other largest assets outside Sweden, including Casumba assets, are performing according to plan. Subaffiliation. Subaffiliation revenue grew from EUR 3.5 million in Q4 2022 to EUR 11.4 million in Q4 2023. Fantastic growth, but lower margin compared to affiliation marketing. Subaffiliation consists of two products: Raketechn Network and Affiliation Cloud.

**Johan Svensson**

Acting CEO | Raketechn

Raketechn Network, which is a platform for paid traffic publishers, continued to deliver significant growth during the quarter. Our in-house developed platform, Affiliation Cloud, focusing on organic traffic, grew quarter by quarter but still on low levels compared to the network. Moving on to betting tips and subscription. Our U.S. tipster business picked up during the fourth quarter but was slightly behind the last quarter of 2022. We still haven't seen any positive effects from the organizational changes we implemented during the quarter. The initial strategy to add affiliation marketing on our tipster asset has not delivered in line with expectations, but we have started to see some positive indications during the fourth quarter. Going to the next slide. Our plan for 2024. When it comes to affiliation marketing, we will review our strategy to secure long-term organic growth.

**Johan Svensson**

Acting CEO | Raketechn

This strategy exercise will include an analysis of our operating model, what markets to prioritize, and how we best allocate the capital. Furthermore, we have started with a performance exercise on the entire product portfolio to optimize cash flow and to improve operational efficiency. The plan for subaffiliation is to continue to build on the good momentum within the network business. We will expand to new markets, including U.S., and we will onboard more publishers. The development of the Affiliation Cloud platform has taken longer time than expected. However, we continue to see very strong demand for the product. The focus during the first half of the year will be to continue to develop the platform and then to start onboarding more partners and increase sales volume during the second half of the year.

**Johan Svensson**
Acting CEO | Raketech

The previous communicated revenue goal of EUR 10 million in run rate by end of 2024 is still achievable but has been pushed forward to first half of 2025. Betting tips and subscription. We have secured key competence in the U.S. organization to focus on digitizing our U.S. tipster business with the goal of improving our online commercials and sales. To capitalize on the efficiencies from these initiatives, we have restructured and right-sized the U.S. organization. Additionally, in Q4 2023, we saw positive indications from our targeted affiliate campaigns on the U.S. tipster assets. We will scale up these campaigns in 2024 to add more revenue streams to the tipster assets. Now over to our CFO, Måns Svalborn.

**Måns Svalborn**
CFO | Raketech

Thank you, Johan. We are pleased to see that total revenues are at an all-time high yet again for the sixth consecutive quarter in a row. On the left-hand side, and similar to Q3, we saw significant growth for subaffiliation, which represents 50% of total revenues. The revenue growth is primarily driven by our paid subaffiliation, Raketech Network, where we saw continued good traction from existing and new partners. The growth here is an effect of increased sales efforts, where our partners have seen good success from Raketech's operational infrastructure and extensive commercial network. Also similar to Q3, we saw continued strong performance in LATAM and the Nordics. Affiliation marketing, our core business area, was up from Q3 as expected, but we did see somewhat of a softer development versus Q4 of last year. This relates primarily to our main assets in Sweden.

**Måns Svalborn**
CFO | Raketech

We do see somewhat of a decreased activity from operators, which can vary over time, as well as a weaker SEK that impacts revenue, but also site-specific performance-related effects, something that Johan highlighted and that we are addressing at the moment. Our other larger assets in other markets, including Casumba, show stable performance. On the right-hand side, and 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 with regards to the significant increase of CPA, this relates primarily to our subaffiliation area, which predominantly is CPA-driven. Worth mentioning, though, is that we are pushing rev share components even within this area.

**Måns Svalborn**
CFO | Raketech

As for the regional split and starting with the Nordics, the substantial growth is predominantly driven by subaffiliation, which pushed revenues in this region to EUR 10.6 million, which is 46% of total revenues in Q4. Similar to previous quarters, we saw a significant share of revenues from the rest of the world, again driven by subaffiliation, and also in line with previous quarters, Casumba continued to perform well. The vertical split on the right-hand side shows both casino and sport revenues growing from last year, with 81% of total revenues in Q4 relating to casino. The largest shifts we have seen within the verticals are driven by the significant growth, again, in subaffiliation. As I've mentioned before, subaffiliation revenues, specifically network sales and its contribution to either sport or casino revenues, will vary between the quarter as it depends on which markets and publisher grow in each and respective quarter.

**Måns Svalborn**
CFO | Raketech

EBITDA is up in Q4 at EUR 6 million versus EUR 5.6 million in Q3. This is as expected, with Q4 being high season both from a casino perspective but also U.S. sports. We are, as we have mentioned, slightly down from last year. Very much in line with Q3, the overall margin is lower. This is as expected as well. And as we've highlighted previously, an effect of subaffiliation increasing its share of total revenues to the group, now at 50%. This area has a lower financial risk and adds a healthy mix to our business. The gross margin was at around 15% in the quarter, and as such, we're happy to see that it represents a reasonably large contributor to EBITDA in absolute terms for the group. On the right-hand side, there is an illustration of our free cash flow.

**Måns Svalborn**
CFO | Raketech

Free cash flow for the full year did come in in line with our guidance at EUR 14 million. This is a substantial increase from last year. In Q4, we're getting close to having free cash on par with EBITDA. The difference is primarily an effect of an earnout payment we settled during the quarter as well as CAPEX related to development of Affiliation Cloud and interest expense paid on our facility with Avida. Again, it's good to see a high level of cash coming in. As a last point on this slide, and I highlighted this last quarter as well, despite a year of record cash flow and EBITDA, our net profit and EPS decreased during the year and also the quarter. This is simply an effect of increased amortization and finance costs related to adjustments to our intangible assets relating primarily to Casumba.

**Måns Svalborn**

CFO | Raketech

These items are non-cash affecting items and do not impact our free cash flow, as illustrated on this slide. It's more of a technical accounting effect more than anything else. Casumba is our last remaining material earnout. It's been a very successful acquisition for us with high margin and high growth. I presented this slide last quarter as well, and it's very similar. We highlighted that we would not expect to see any significant revisions of the earnout in the last quarter, which we did not. We can now conclude that out of the EUR 46 million in total, EUR 41 million is now fixed. The remaining smaller amount that runs up until July 2024 is a profit share structure, which means it's cash flow positive for the group. On the left-hand side, there's an illustration of our current free cash flow before estimated upcoming earnout settlements.

**Måns Svalborn**

CFO | Raketech

This is represented by the dotted line on top. As illustrated by the arrows, there's quite a lot of headroom in relation to current levels of cash flow, which means that we have financial flexibility in the business as we move along. The payment terms are flexible and can be settled in installments up until September 26. Also worth mentioning is that we do have the option of settling part of the Earnout in shares if we so wish. Since there is a lot of flexibility with regards to timing on settlement but also flexibility on timing for the option of settling with shares, this will be an evaluation by the board as we progress, depending on what makes best sense from all aspects considered.

**Måns Svalborn**

CFO | Raketech

As a last point, we're very happy that the founders of Casumba are committed to staying on board with overseeing the portfolio of sites but, more importantly, assist Raketech in other growth projects. Thank you, and over to you, Johan.

**Johan Svensson**

Acting CEO | Raketech

Thank you, Måns. To conclude, 2023 performance was in line with previous guidance. Going forward, my objectives are clear: to deliver long-term organic growth and increased profitability via improved operational efficiency and capital allocation. Looking at January, revenues amounted to EUR 7.3 million with a strong performance from subaffiliation. Guidance for 2024. We have now shared our guidance for 2024 with an estimated EBITDA of EUR 24 million-EUR 26 million and a free cash flow of EUR 22 million-EUR 24 million. This is before the Casumba earnout of EUR 18.3 million. With these words, we now open up for Q&A.

Q&A

**Operator**

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

**Hjalmar Ahlberg**

Equity Analyst | Redeye

Thank you. I'm going to start with a question on the trading update here for January, which looks pretty solid and consistent with the performance in the last few quarters. But can you give any flavor? I mean, you didn't mention subaffiliation growth, but anything else impacting there in terms of regional mix or anything that could be worth mentioning?

**Måns Svalborn**

CFO | Raketech

Hey, Hjalmar. So we won't give any more details with regards to the January trading update. It is, again, primarily organically from our perspective driven by the subaffiliation, but more info than that we'll have to wait until we release the Q1 report.

**Hjalmar Ahlberg**

Equity Analyst | Redeye

All right. In terms of your full year guidance for EBITDA, can you give any information on what could move you to the lower end of the guidance or the higher end of the guidance? What are the moving parts in that range?

**Måns Svalborn**

CFO | Raketech

Yeah, that's details we won't go into either, to be honest. What we can say is that we do expect a continued sort of strong contribution from subaffiliation. We will be looking, as Johan mentioned, into cost efficiency measures as well, and we'll try to be a little bit more focused on investment when it comes to organic growth within affiliation marketing. But more than that, we'll have to get back to you with regards to the full year update or guidance.

**Hjalmar Ahlberg**

Equity Analyst | Redeye

All right. This efficiency program, so to say, are there any specific areas where it's upside? I mean, you did mention U.S. there, for example. Is there any, I mean, costs for that program, or is that mainly no increase in costs for that?

**Måns Svalborn**

CFO | Raketech

Well, so this is ongoing something that we have started now in Q1. The goal, obviously, is to achieve efficiency and primarily perhaps operational efficiency. So when it comes to numbers and assessment around that, we'll have to get back to you as well a little bit further down the road.

**Hjalmar Ahlberg**

Equity Analyst | Redeye

And on U.S., I mean, you did mention that you're continuing to work to increase affiliation revenue, and you're looking to maybe seeing that in next year during the NFL season. I mean, how confident are you that you will realize this year or late this year? What are the risks that you won't do that, so to say?

**Johan Svensson**

Acting CEO | Raketech

Regarding the affiliate revenue in U.S., we're confident in the new team running these targeted affiliate campaigns. But yeah, the competition is tough in U.S. as in all large regulated markets. But yeah, we're confident in the team.

**Hjalmar Ahlberg**

Equity Analyst | Redeye

In terms of revenue mix, I guess you won't guide on that, but just if you can give some more flavor maybe on how to view Subaffiliation variation. I mean, you'd have two quarters with pretty stable revenue, I would say, in Subaffiliation on a high level. What kind of range could we see that drop down like 20%-30% in a quarter? Or can you give any information on that maybe?



Måns Svalborn
CFO | Raketech

No, sorry, not we won't. It will be. I was anticipating that question perhaps, but it is an area of focus for us, so I can say that much. But the mix, we won't comment on. But it is a focus area for us definitely in the coming years still.



Hjalmar Ahlberg
Equity Analyst | Redeye

Okay, that was all my questions. Thank you.



Johan Svensson
Acting CEO | Raketech

Thank you.



Rikard Engberg
Equity Research Analyst | Carnegie Investment Bank

Good morning, guys. Rikard from Carnegie here.



Operator

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



Rikard Engberg
Equity Research Analyst | Carnegie Investment Bank

Morning, guys.



Hjalmar Ahlberg
Equity Analyst | Redeye

Morning.



Johan Svensson
Acting CEO | Raketech

Good morning.



Rikard Engberg
Equity Research Analyst | Carnegie Investment Bank

I have two questions, if I may. The first one is regarding the seasonal effects of a year. Do you think that the Euros this year will give you a significant uptick in revenue given increased activity within the industry?



Johan Svensson
Acting CEO | Raketech

Compared to Q2, Q3 last year, the Euro is.



Rikard Engberg
Equity Research Analyst | Carnegie Investment Bank

Yeah, yeah, exactly.



Johan Svensson
Acting CEO | Raketech

Yeah, yeah, yeah, the sports revenue will have a significant boost in general when it's a Euro or a World Cup during June and July. So yeah, we see a revenue boost coming for the Euro, yes.



Hjalmar Ahlberg
Equity Analyst | Redeye

Also, if you can give some details on Affiliation Cloud, how it's been received by the customers that have signed it during the quarter?



Johan Svensson
Acting CEO | Raketech

Yeah, Affiliation Cloud, the development of a platform has taken a bit longer than expected. However, we continue to see a very strong demand for the product, and we have chosen to not onboard too many new operators and publishers on the platform until, yeah, we're done with our vision of a platform which we expect to be here during the first half of the year. And then during the second half of the year, we expect to onboard more partners and increase the sales volumes. And therefore, we pushed forward the previous communicated revenue goal of EUR 10 million in run rate by end of this year till first half of next year.



Hjalmar Ahlberg
Equity Analyst | Redeye

Okay, great. That was all for me.



Johan Svensson
Acting CEO | Raketech

Thank you, Rikard.



Operator

As a reminder, if you wish to ask a question, please dial pound key 5 on your telephone keypad. There are no more questions at this time, so I hand the conference back to the speakers for any written questions or closing comments.



Johan Svensson
Acting CEO | Raketech

Okay. Then we'd like to thank you all for listening in, and we welcome you back for the Q1 report in May.