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Raketech

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Speakers



Marlon Värnik

Analyst | Nordea Markets



Måns Svalborn

CFO | Raketech



Operator



Oskar Mühlbach

CEO | Raketech



Rikard Engberg

Equity Research Analyst | Erik Penser Bank

Prepared Remarks

**Operator**

Hello, and welcome to the Raketech Audiocast for Teleconference Q4 2021. For the first part of this call, all participants will be in a listen-only mode, and afterwards, there will be a question and answer session. Today, I'm pleased to present CEO Oskar Mühlbach and CFO Måns Svalborn. Speakers, please begin your meeting.

**Oskar Mühlbach**

CEO | Raketech

Thank you, operator, and good morning, and thank you all for joining Raketech's final quarterly presentation for the year of 2021. This presentation has two main sections followed by key takeaways and as always, Q&A at the very end. In the first section, we'll guide you through selected highlights from the quarter, and in the second section, we'll deep dive into the financial details. My name is Oskar Mühlbach, I'm the Group CEO, and besides me, you will also today hear, as always, Måns Svalborn, and he is our Group CFO. Warm welcome, and let's get started. Slide three please. On this slide, you can find some of our most important KPIs from Q4. As you can see on your right, revenues amounted to EUR 11.8 million, which once again sets a new record for the group.

**Oskar Mühlbach**

CEO | Raketech

EBITDA, which in this quarter does not include any adjustments, increased by 50% to EUR 5.4 million, which is strong, not only in absolute terms, but also with regards to margin, which amounted to 46%. Total revenues grew 40% year-over-year, while organic growth amounted to 12.5%. Performance from organic growth drivers such as our network sub-affiliation program and our efforts in Japan is still very strong at the same time as we meet tougher comparisons year-over-year. Another important KPI worth pointing out is our EPS, which, supported by organic as well as acquired growth, has taken a leap and increased to record levels. For Q4, our EPS was EUR 0.07 per share, corresponding to an increase of 26% compared to the same period last year. We continue to see strong performance for most markets and most assets.

**Oskar Mühlbach**

CEO | Raketech

However, growth markets outside of the Nordics are standing out positively, in particular the U.S., much thanks to recent acquisitions. 2022 has got us off to a strong start so far, with January revenues amounting to EUR 4.5 million. From a seasonality perspective, Q1 is typically a bit slower for us, but we are looking forward to being helped by the U.S. sports calendar, which on the contrary, is strong during the same period. Our largest market, Sweden, was during Q4 stable and has continued as such also into the new year. Same for our Japanese assets as well as our network sub-affiliation sales, despite the Dutch market still being limited at this point. Before we move on to the next slide, I want to highlight that I'm a little bit extra happy about the strong margin during Q4.

**Oskar Mühlbach**

CEO | Raketech

This, considering that our network sub-affiliation revenues, as well as our U.S. subscription revenues, are by nature lower in margin compared to our more traditional affiliation revenues. With this in mind, the strong margin is a proof of the scalability and efficiency of our business model, and it allows us to be opportunistic and to make short and long-term investments into important projects, markets, and assets, which I will be elaborating on a little more about in just a few slides. Before that, let's have a look at some operational highlights, and that's on the next slide, which should be slide four. As you all know, there are some strategic KPIs that are a little bit extra important to us. I'm talking about sports as share of total, U.S. revenues and growth, and of course, also our global footprint.

**Oskar Mühlbach**

CEO | Raketech

With that said, I'm happy to conclude that we, during Q4, much thanks to our recent acquisitions, took a few but important and significant steps in the right direction. Sports revenues grew by 150% in absolute terms and now represents 22% of the group's total. Thanks to sports-heavy U.S., we expect this KPI to increase even more going forward. Even though we're very happy with our Nordic presence, specifically Sweden, where we have somewhat of a market-leading position, we do have global ambitions. For that reason, I'm glad to see that the non-Nordic region grew by 155% in absolute terms. During Q4, non-Nordic revenues amounted to 46% of group total, despite our latest acquisition only being accounted for as late as mid-December of 2021.



Oskar Mühlbach
CEO | Raketech

As previously mentioned, we have also added end user subscriptions as a revenue stream in the U.S., which during Q4 represented 6% of group total. For the beginning of 2022, we expect U.S. user subscriptions to increase significantly, and by doing so, also increasing our U.S. share of total to up to 20%. As the U.S. is expected to become our second-largest market already during this quarter, Q1 2022 that is, we have decided to establish a local U.S. business unit, which we already have recruited key functions to within sales and product, as well as a managing director to lead this unit. We believe that a key to success in the U.S. is to have local knowledge with regards to sales and product.



Oskar Mühlbach
CEO | Raketech

As an example, we have seen that the demand for locally tailored campaigns and commercials state by state is common and that commercial content is much more just in time compared to what we potentially are used to in other parts of the world. In addition, we, of course, also have challenges with time zones that we hope to bridge with this setup. To set up a local organization is however of course a commitment, which in the short term is expected to have a somewhat dampening effect on our margin, but long-term, very important to ensure we maximize the U.S. opportunity. On another note, I'm pleased to see that our network sub-affiliation program has managed to deliver strong results during Q4 despite the Dutch market being reduced due to the newly imposed local regulations.



Oskar Mühlbach
CEO | Raketech

Finally on this slide, please note that in addition to the seasonally strong sports calendar in the U.S., Q1 2022 will contain a full quarter of revenues from our latest acquisitions compared to only a few weeks of revenues in Q4 of 2021. Next slide. Slide five, please. With this slide, I want to just quickly make a final recap of our long-term strategic operational goals as we set them two years ago. As a little reminder, we set four goals in this perspective, and we believed it would take two to three years to get there. With the fast development over the last years, we are just in the right position already now. Starting with the yellow box, our product offering is now very well diversified.



Oskar Mühlbach
CEO | Raketech

To the consumer, we offer a wide selection of different digital assets spanning from subscription fixture services to sports communities and casino bonus comparisons. To our customer or clients, the operators, we have potentially the broadest commercial offering in our industry. On top of the traditional affiliation services, which is the major share of our revenue still, we also offer media agency services, in-depth analytics and performance reports, programmatic display advertisement on our own assets as well as externally based on unique user insights, social media campaigns, CRM, content marketing, sponsorships, and much more. Continuing to the pink box, I'm very happy with our geographical positioning, which is better than ever before. We have solidified our position in the Nordics, particularly in Sweden, while also establishing significant presence on fast-growing markets in the south of Europe, India, Japan, and of course, also the U.S.



Oskar Mühlbach
CEO | Raketech

In parallel, we planted seeds on markets in South America and other parts of the world expected to deliver growth within a few years. With regards to flagship assets, the orange or maybe red box, second from your right, we actually have even more than we aimed for within a large variety of asset types, regions, and verticals spanning from the popular TV sports guide to maybe the world's largest cricket betting site and everything in between. With regards to the blue box in the bottom right corner, not having a single vertical representing more than 60% of group total, we are almost there as well. Here, one must bear in mind that this goal was put in place during a time when we also had a finance vertical, which we since then have divested.



Oskar Mühlbach
CEO | Raketech

The reason I'm showing this slide today is of course to tell you about our progress, but primarily to let you know that this is the last time I will follow up on this in this forum. We've reached where we wanted to reach, and now it's time for new goals. We will, of course, not change strategy completely. A great commercial offering being offered on a global level via high-quality flagship assets to sports as well as casino players will continue to be our focus even in the future, even after I stop talking about them in these presentations, that is. Going forward, I want to talk more about how we aim to use this strong position to build and grow Raketech to an even better and stronger company in the future. More about that on the next slide. Should be slide six.



Oskar Mühlbach
CEO | Raketech

Maybe not a surprise to anyone, but on the top left side of the grid, you can find maximize U.S. potential. For us, this essentially means three things. The first one is to make sure we monetize on the existing U.S. fixture traffic. Our U.S. assets have up to 1 million unique sessions every month, and up until now, no traditional affiliation revenues whatsoever. As stated before, we have already started with this, and we are thrilled to see that incremental revenue already is coming in. We do, however, believe that there's much more for us to do here. We furthermore believe that the local organization in the U.S. will help accelerate growth in itself. We have a series of organic products live in the U.S. run by our global organization.



Oskar Mühlbach
CEO | Raketech

We have had mixed success so far, and we have therefore been a bit moderate with investments, and this is something we aim to ramp up with the help of the local organization as we go forward. Finally, just like with previous acquisitions, we hope that our central tech and analytics functions will be able to help accelerate growth for the acquired assets, just like we've done with Lead Republik, Infinileads, and Casumba. Looking at the bottom left corner, we are increasing our investments into existing flagship assets. We believe that there is room for improvement and expansion, and we believe that we have a solid ground to stand on when making these investments. I'm thinking of tech infrastructure, BI staff, and central systems as the foundation.



Oskar Mühlbach
CEO | Raketech

With regards to our network sub-affiliation revenues, we have noticed that there is an increased demand for this from the more traditional organic affiliates as well as from operators. The world is becoming more and more complex with regards to local regulations, AML, and more, and by investing into this infrastructure, we believe that this could add incremental revenues from an already successful business area. Our M&A agenda is just like before, very ambitious. However, with our current geographical footprint, we are concentrating our efforts to existing high-growth iGaming markets and preferably markets that are regulated, such as the U.S. and Italy, or markets soon to be regulated, such as Canada and Brazil. As we've grown, so have also our ambitions with regards to what we're looking for, and as size is becoming increasingly more important in our industry, we do prioritize larger objects before smaller ones.



Oskar Mühlbach
CEO | Raketech

All in all, we now have a great platform to stand on in terms of assets, markets, and organization. With that great platform as a base, we will, during 2022, prioritize monetization on mature markets while maximizing growth on growth markets. With that said, we've decided to increase investments into growth during 2022, specifically targeted our U.S. expansion. Thanks to our strong EBITDA development during 2021, we, however, expect EBITDA margin for the full year of 2022 to stay roughly in line with previous year despite these increased investments. With those words, over to Måns and the financial details for Q4.



Måns Svalborn
CFO | Raketech

Thank you, Oskar, and let's start on slide eight, please. Q4 is at an all-time high for revenues, and it's now the third consecutive quarter with record revenues. Year-on-year, we're up 40%, of which organic growth was 12.5%. We've seen growth in a number of assets, but the majority of our growth is split evenly between network sub-affiliation sales and our prior acquisition, Casumba. Compared to Q3 of this year, we're up 23%. We continue to see positive development in Sweden and did see expected seasonality effects in Q4, as well as continued growth from Casumba. Our more recent acquisitions of Infinileads and QM Media have shown positive growth throughout the quarter, and specifically Infinileads finished the quarter exceptionally strong with doubled revenues from the date of acquisition earlier this year.



Måns Svalborn
CFO | Raketech

As a reminder, these are primarily the Slotjava assets that so far predominantly target south of Europe, but are gaining ground in South America as well. Lastly, our network sales had a stable quarter and represents in the quarter just shy of 20% of total revenues, which in relative terms is slightly lower than last quarter, although there has been growth in absolute terms within this segment as well. Next slide, please. This slide illustrates our EBITDA, cash conversion, EBIT, and earnings per share for the last few quarters. There are two points I would like to highlight here. In the middle diagram, we have our development of LTM, EBITA, and cash conversion.

**Måns Svalborn**

CFO | Raketech

One quick point to make is that we are slightly lower on cash conversion in Q4, which almost exclusively relates to timing effects, and this should catch up in the upcoming quarter, and we should, as we go along, be on or just below 100% in cash conversion. Secondly, we have seen quite a big jump in our EPS. This is primarily an effect of increased profitability, but also to some extent an effect of slightly lower amortizations on our intangible assets, as some of these assets are now being fully depreciated. From next year, we'll see a minor increase in amortization from our recently acquired assets, but we will nonetheless see a continued strong positive development for our EPS. Next slide, please. Compared to Q4 of last year, there is an expected decline in number of NDCs.

**Måns Svalborn**

CFO | Raketech

This decrease relates primarily to Sweden and the temporary gambling restrictions that were implemented in July of 2020. As a consequence of these restrictions, we saw a temporary boost in NDCs as players scrambled to open up several accounts, but the aggregated player value was essentially not affected. In addition, from last year, we've actively prioritized operators that we assess generate high-value leads ahead of high-converting volumes with low player value. This also means a lower NDC count, but higher average revenue per lead and also improved total revenue growth. Compared to Q3 of this year, we're down 4%. We've seen a similar effect relating to the temporary COVID restrictions as these were lifted in Q4. The effect was minor, and as I mentioned, the somewhat increased player value had an offsetting positive effect on revenues.

**Måns Svalborn**

CFO | Raketech

Additionally, we saw a minor decrease in NDCs from our network sales as they pulled out of Netherlands, but managed to maintain revenues by shifting their efforts to other regions, as well as increasing revenues from rev share. Finally, as I mentioned earlier, our European casino assets through Infinileads have performed exceptionally well and have added a positive NDC count. Next slide, please. This slide illustrates our geographical, vertical, and revenue split. With regards to our geographical and vertical split, Oskar has covered this earlier, in the presentation, so I will only point out again that we are well on our way to finding a well-balanced split both from a growth perspective and risk perspective. One small point to make when it comes to our revenue split is that even though rev share is on a similar percentage share, this revenue stream has increased in Q4.

**Måns Svalborn**

CFO | Raketech

This is predominantly an effect of added revenues from recent acquisitions of Infinileads and QM Media, which both operate on markets that are slightly more tilted towards rev share. This can and will, however, shift around somewhat as we go along, as we pointed out earlier, and will vary, depending on market and which operators we work with from time to time. Flat fees have also grown in absolute numbers in the quarter. This is an effect of efficient sales efforts from our team and relates partly to seasonality in the sense that Q4 normally means higher media sales. But also that we managed to increase flat fee sales for our recently acquired assets. This is a positive effect we normally do see when we make acquisitions and apply our central sales to the assets.

**Måns Svalborn**

CFO | Raketech

Next slide, please. With regard to our cash flow bridge Q3 versus Q4 this year, our net cash from operations is strong and has increased with improved profitability. Investing activities relate to our recent acquisition, of which EUR 10.7 million relate to cash paid for the ATS acquisition, and the remainder is paid earn-outs during the quarter. Lastly, borrowings relate to a second utilization of the current credit facility with Avida Finans, which we signed during Q3 of 2021. Next slide, please. This slide illustrates our margin in Q4 compared to Q3 of this year. From a cost line item perspective, we have seen an increase in other operating expenses, which naturally is an effect of added costs through our recent acquisitions, but also to some extent increased investments. We've also seen a minor shift from employees to contractors as a consequence of our remote work setup.

**Måns Svalborn**

CFO | Raketech

Considering however that we are unchanged at 46% on EBITDA margin compared to Q3, it's positive to see the effects from the benefits of scale we mentioned earlier. Having said that, in line with what Oskar said earlier, we are expecting the margin to come down a little bit as we enter into 2022. There is naturally a seasonality effect in Q1 that will mean that subscription revenues through U.S. sports as well as network sales that has a lower margin will represent a higher share of total revenues and will thus have a minor dampening effect for the next quarter. We will as well, as Oskar pointed out, somewhat increase investments, but the effects will not be dramatic, and we are expecting the margin to come in line with the margin for the full year of 2021. Thank you, and back to Oskar and slide 14, please.

**Oskar Mühlbach**

CEO | Raketech

Thank you, Måns. That was the last slide for today. Before we move on to Q&A, let me wrap things up. As always, let's start with the financials. Q4 revenues totaled EUR 11.8 million, which is yet another all-time high. Growth year-over-year was 40% and quarter-over-quarter, 23%. Organically, we grew 12.5%, strong but lower than previous quarter as we are meeting tough comparison numbers. Casumba and our network were the main contributors. Our EBITDA without any adjustments this time came in at EUR 5.4 million, corresponding to a margin of 46%. With regards to other milestones and events, we closed our so far largest U.S. acquisition, and we reached 46% of non-Nordic revenues for the quarter. This corresponds to a non-Nordic growth of 155% year-over-year.

**Oskar Mühlbach**

CEO | Raketech

Sports also took a jump and landed at 22% of total or 150% up compared to last year. During the quarter, we furthermore reached 6% of total in subscription revenues, something we expect to increase during Q1 as ATS, the latest acquisition, is fully accounted for. Looking ahead, we saw January giving Q1 a solid start with EUR 4.5 million in revenue and an EBITDA margin of 41%. Our increased sports share is expected to increase during Q1 and even further thanks to a busy sports calendar in the U.S. as well as a full quarter with revenues from recent acquisitions. Thank you all for calling in today. Thank you also to all the new and the old amazing people at Raketech for your contributions during Q4 and during 2021. With those words, let's move over to Q&A. Next slide, please.

Q&A

**Operator**

Thank you. If you do wish to ask a question, "please press zero one" on your telephone keypad. If you wish to withdraw your question, you may do so by pressing zero to the cancel. Our first question comes from the line of Marlon Värnik from Nordea Markets. Please go ahead.

**Marlon Värnik**

Analyst | Nordea Markets

Yeah. Hi, good morning, Oskar and, Måns. Can you hear me?

**Oskar Mühlbach**

CEO | Raketech

Loud and clear. Good morning, Marlon.

**Marlon Värnik**

Analyst | Nordea Markets

Perfect. Well, let's start with the trading update here for January. I mean, it's quite strong, but how should we view the rest of the quarter given that you're ramping up the U.S. acquisitions and possibly maybe some negative reopening effects and so on? Can you give some more flavor on the rest of the quarter and your expectations here?

**Oskar Mühlbach**

CEO | Raketech

Sure. It is just, as you said, a very strong start of the year. At the same time, we, as we stated also, I think in the presentation, Q1 is typically a little slower when it comes to casino revenues from the rest of the world. At the same time as we are looking forward to quite intensive sports calendar in the U.S. I think potentially that could compensate for some of the slow moment on other parts of the world. It's difficult at this point to guide for the full quarter, but we had a good start.

**Marlon Värnik**

Analyst | Nordea Markets

Okay. Maybe if you give some comments on New York as well and how you view that state now given that they launched here the mobile sports betting here ninth of January. Can you give some comments on New York and your expectations there?

**Oskar Mühlbach**

CEO | Raketech

Sure. The majority of our revenues is originating from subscriptions still in the U.S. I would say that New York, of course, has a positive effect on us, but it's not as dramatic as potentially for others that have more traditional affiliate revenues, while we would have more stabilized revenues as a majority is coming from subscription in the U.S. at this point.

**Marlon Värnik**

Analyst | Nordea Markets

Perfect. Also a question here on the EBITDA margin. I mean, you guided to be for 2022 in line with 2021. Can you maybe specify a bit further here? I mean, what more exactly in terms of investments will increase here, you know, two figures two year-over-year? Can you just quantify or dig into more, what more exactly what terms of investments?

**Oskar Mühlbach**

CEO | Raketech

I think. What do you mean in more exactly? Quantify this, where specifically they go or.

**Marlon Värnik**

Analyst | Nordea Markets

Yeah, exactly.

**Oskar Mühlbach**

CEO | Raketech

in total or? Well, I mean, for competitive reasons, we won't disclose exactly how we spend the investments. In general, it's like we said in the report, the U.S. is, of course, super interesting for us, and we envision a lot of growth there in the years to come. Naturally, we need to make sure that we have a good, solid footprint in the U.S., both in terms of products, but also with presence with people. That's, of course, an area of investments. And then, as we also said in the presentation, our flagship assets are now in a position where we believe that we could invest slightly more in them, maybe to expand functionality, but also take new markets with them.

**Oskar Mühlbach**

CEO | Raketech

Then, of course, the sub-affiliation program we mentioned, there are investments going into that, where we see that there's an opportunity to expand also to cater for more organic affiliates to sign up for that program. Those are the main investment programs that we are focusing on. I would say that the U.S. would be the largest one of those.

**Marlon Värnik**

Analyst | Nordea Markets

Okay. Interesting. Also just last question from my side here. I mean, if you can give some further comments on Latin America, Brazil, and maybe Canada, that's obviously interesting markets here in the medium term. How are you working to gain market share in those markets? And what will your strategy be here going forward? And if you compare also your strategy in the U.S. compared to Canada and how you will develop and expect from here.

**Oskar Mühlbach**

CEO | Raketech

Yeah, that's an interesting one. I think, Canada, Brazil specifically, are very interesting markets for us. Brazil, very sports-oriented, and Canada potentially, slightly more casino-oriented, even though sports is driving it. We're of course keeping a close eye on both of these markets, and we are investing into building organic presence. As you know, organic presence takes time to build. Obviously, those markets are also interesting from an acquisition point of view, to gain market share.

**Marlon Värnik**

Analyst | Nordea Markets

Perfect. Thank you. That's all from me.

**Operator**

We have one more question from the line of Rikard Engberg from Erik Penser Bank. Please go ahead.

**Rikard Engberg**

Equity Research Analyst | Erik Penser Bank

Morning, guys.

**Oskar Mühlbach**

CEO | Raketech

Good morning, Rikard.

**Måns Svalborn**

CFO | Raketech

Morning.

**Rikard Engberg**

Equity Research Analyst | Erik Penser Bank

My question is regarding the gross margin. Can you please elaborate a bit about that during the quarter and during the last year and how you see it going forward?

**Måns Svalborn**

CFO | Raketech

Maybe that's for me, I presume. We don't expect any dramatic changes there, to be honest as well. Looking at the gross margin, what will impact primarily, and that can vary a little bit as we go throughout the quarters here is, if the network is safe, to be honest, that might push it up and down a little bit. There, we're trying to be opportunistic, to be honest, and try to grow where we can and take those opportunities as we find them, as we go along. That will obviously as well increase profitability quite a bit. We don't expect any major adjustments or changes that compared to 2021.

**Rikard Engberg**

Equity Research Analyst | Erik Penser Bank

Okay, thanks.

**Operator**

As there are no further questions, I'll hand it back to the speakers. We have, sorry, a follow-up from Marlon. Please go ahead.

**Marlon Värnik**

Analyst | Nordea Markets

Hi. Hi again. Marlon here. Just a follow-up question here on the EBITDA margin. I mean, you have a target of 50%, long-term target. You guide 2022 to be in line with 2021. That's given that the investment phase now in the U.S. What can we expect on the EBITDA margin beyond 2022? And is it reasonable to reach the target level despite being a so-called heavy investment phase? If you can, any comments here on the EBITDA margin beyond 2022 and expectations would be appreciated. Thanks.

**Oskar Mühlbach**

CEO | Raketech

Thanks, Marlon. That's a very relevant question, and maybe something we need to clarify. We are making heavy investments, specifically into the U.S., and we're expecting to see positive effects on the margin already this year by the end of the year, with full effect in 2023. We will, however, keep investing if we see that could increase the organic growth compared to our financial targets. You would get potentially a larger organic growth looking at 2023 and 2024 than, but then at the cost, you know, of the margin, in the short- to mid-term. Long-term financial goals fulfillment would be then looking at 2024 potentially, but with a potentially larger organic growth up until then at a slightly lower margin.

**Marlon Värnik**

Analyst | Nordea Markets

All right. Clear. Thank you.

**Operator**

There are no further questions, so I'm handing it back to the speakers.

**Oskar Mühlbach**

CEO | Raketech

Perfect. Thank you so much for joining us today, and we look forward to talking to you again in connection with the Q1 report. Have a great day.

**Operator**

This concludes our conference call. Thank you all for attending. You may now disconnect your lines.