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Raketech

Q2 2021



Speakers



Erik Lindholm-Röjestål
Analyst | Nordea



Måns Svalborn
CFO | Raketech



Operator



Oskar Mühlbach
CEO | Raketech

Prepared Remarks



Oskar Mühlbach

CEO | Raketech

Good morning, everyone. Welcome to Raketech's 2021 Q2 presentation. My name is Oskar Mühlbach. I'm the Group CEO, and our Group CFO, Måns Svalborn, and I will today walk you through the highlights of Raketech's Q2 report. Before we do so, let's have a quick look at today's agenda, and that's on slide three. We'll start by going through key numbers and main events, and this is during the highlights section. As you might know already, we have had some significant events with regards to M&A during the quarter, and I've therefore included a specific slide about that in this section as well. Måns will, as always, then do a deep dive into our financial details before I finally wrap things up and open up for questions. Let's move to slide four.



Oskar Mühlbach

CEO | Raketech

Here we have the financial highlights, and as you can see, our strong momentum that was carried over from Q4 into Q1 continued also into Q2. We managed to beat the all-time high revenue record set for Q4 of last year, and our revenues amounted to EUR 8.8 million for the second quarter. This is, as you can see in the top left box, equivalent to a 25% year-over-year growth and 6% compared to previous quarter. On a general level, our operational performance continued to be stable, with no major shifts in terms of product mix or regional distribution. Our network sales continued its strong progression, which significantly contributed to our strong organic growth, which in turn amounted to 25.7%, slightly above our overall growth.



Oskar Mühlbach

CEO | Raketech

The fact that our organic growth was higher than our company growth year-over-year is simply relating to the divestment of the finance vertical late last year, which skews the comparison a little. As anticipated by the end of the quarter, that is late June, we experienced a significant uplift in sports-related traffic, with primarily our TV sports guide asset going very strong. Our EBITDA grew by just over 20% year-over-year and landed at EUR 3.4 million for the quarter. This equals a margin just shy of 39%, which is in line with previous quarter. Our NDC intake, new depositing customers, that is, amounted to 35,000, which is a decline both compared to previous quarter as well as previous year.



Oskar Mühlbach

CEO | Raketech

However, as we have mentioned before, the NDC KPI is becoming less and less relevant to look at as the performance metrics, simply because different markets behave fundamentally different. Måns will elaborate a little more on this in the financial section in just a few minutes. Speaking about different markets and product mix, our July revenues landed at EUR 2.9 million, which is strong. Furthermore, as a result of a slight change in product mix, our EBITDA margin came in at 43%, which is considerably higher than previous quarters or months. This is due to slightly larger share of high margin affiliation revenues compared to lower margin network revenues, which is very much in line with what we've explained before, that the EBITDA margin in the short term will be very much dependent on the mix between network revenues and the more traditional affiliation and media revenues.



Oskar Mühlbach

CEO | Raketech

In July, our German network revenues declined as a direct effect of the German Interstate Treaty implemented on July 1st. This at the same time had other assets like CasinoFeber was showing strong numbers, and this resulted in a slightly changed product mix, consequently affecting our margin in a positive direction. Long term, we use our financial goals to guide us, but in the short term, we make sure we are opportunistic and optimize earnings, which in practice means that we might decide to increase network revenues if there is an opportunity to increase earnings, even if that, in the short term, would lower the EBITDA margin in terms of percentage. All in all, I'm happy with Q2, and Q3 has gotten us off to a good start so far. Next slide, please, and that's slide five, I think. Here are some operational highlights.

**Oskar Mühlbach**

CEO | Raketech

Besides beating our previous revenue record, we furthermore managed to reach an all-time high with regards to non-Nordic revenues during the quarter. With that said, I want to point out that we strongly believe in the Nordics, with Sweden in particular. To mitigate risks as well as going for growth opportunities, it is strategically important that we have a wide geographical footprint. Last year in Q2, we had 19% of revenues from outside of the Nordics compared to 39% of this year, which is, as I just mentioned, a new record. During the quarter, the Euros took up much of the organization's focus, and one thing that I wish to mention relating to this is our first free-to-play product, which we launched just before the championships.

**Oskar Mühlbach**

CEO | Raketech

We rolled it out as a plug-in product on the TV sports guide, where we offered users to predict championship winners and game results. The competition was completely free-to-play, but it had a substantial prize pool, both for the championships and on a daily basis. To be clear, we are still experimenting, and with this particular experiment, we wanted to test our ability to use existing assets to cross-promote new products, the user's appetite to such a product, and of course, our ability to monetize on such a product. As mentioned before, we believe that it will be over time more and more important, specifically on regulated markets, to also offer assets that engage the user rather than only attract new users.

**Oskar Mühlbach**

CEO | Raketech

For competitive reasons, I'm however not going to share any more details with regards to the free-to-play product at this point, but I can tell you this much: the results were encouraging and we will continue our efforts. On another note, in July, we announced three significant events. First, we managed to secure and increase our revolving credit facility from EUR 10 million to EUR 50 million. We have partnered up with Avida Finans and will therefore be terminating our current RCF with Swedbank later on this year. The new RCF will allow us not only to continue the set path, but also to accelerate the pace. The last two major events both include acquisitions, one being the acquisition of QM Media and the second being Infinileads. Besides high-quality assets, access to important markets, and increased sports revenues, we also strengthen our team with some really brilliant people.

**Oskar Mühlbach**

CEO | Raketech

I have more information about the acquisitions on the next slide, so let's jump there now. It's on slide six. There's a lot of information on this slide. I will therefore try my very best to highlight what I want you to take with you. All in all, we are adding over EUR 6 million worth of revenues on a yearly basis with strong margins, well over 60% in both cases. We get additional casino affiliation revenues, but also an even larger addition of sports revenues. The majority coming from markets that we have pointed out as strategically important growth markets for Raketech, Spain, Italy, Portugal, but also South America in the case of Infinileads, and U.S. and India in the case of QM Media.

**Oskar Mühlbach**

CEO | Raketech

With QM Media, we, however, also get minor assets on the Nordic markets, on which we have identified several commercial as well as operational synergies when combined with our current portfolio. The expected return on investment is, in both cases, approximately four years, and total consideration is EUR 13.5 million, plus EUR 9 million in shares. The cash component will be covered by our current cash of approximately EUR 5 million in combination with our RCF. I want to take the opportunity to also highlight the share component with QM because I'm a little bit extra happy about this one, simply because it means that everyone has the exact same incentive going forward, which is the success of Raketech as a group.

**Oskar Mühlbach**

CEO | Raketech

For smaller acquisitions, earn-out models can be perfect, like in the Infinileads case, but for larger, more complex acquisitions like QM Media, where we also see large potential for operational and commercial synergies, as well as future product development, shared incentives is key. In the QM case, we, for instance, believe that the Raketech core team has much to offer, as well as the commercial team by, for example, adding affiliation to the American assets, where revenues today primarily stem from tipster subscriptions. On the other hand, Raketech has a lot to learn about local markets, as well as finally getting Raketech boots on the ground in the U.S. Shared incentives, furthermore, makes it easier to work on product development, commercial optimization, such as cross-promotional assets, et cetera, than the more typical earn-out model frequently used in our industry.

**Oskar Mühlbach**

CEO | Raketech

The most dominant assets from the two acquisitions are Slotjava, which is a free-to-play slots machine asset, Picks and Parlays, which is a tipster community and subscription service in the U.S., and Online Cricket Betting, one of the, if not the world's largest cricket betting site, predominantly targeting India, but with global potential. Revenues from Infinileads will be accounted for as from August and QM as from September the 15th. Both will contribute positively to revenue margins and cash flow from day one, and this includes earn-outs in the case of Infinileads. With that said, on the next slide, I have our high-level projections on how the two acquisitions will affect the group numbers on an overall level. Let's move to the next slide, and that's slide seven. Some high-level key points explaining the commercial and strategic rationale of the two acquisitions.

**Oskar Mühlbach**

CEO | Raketech

First, I want to also highlight that in the short term, our primary focus is to ensure we put enough resources and efforts into the integration and business development parts of the acquisitions to make them successful. To be clear, this means that we might see slightly lower margins than the one in July short term, but with EBITDA margin then naturally increasing over time. With Infinileads and QM Media fully integrated, we estimate that the Raketech Group margin will increase with up to 4 percentage points, even including our low-margin network sales. The market mix will, of course, as I mentioned in the beginning of the presentation, still play some role, occasionally affecting margin positively or negatively between single quarters.

**Oskar Mühlbach**

CEO | Raketech

Our total sports share is projected to reach over 25%, which makes us closing in on our target of not having a single vertical representing more than 60% of group total. The U.S. share of total is projected to make up approximately 8%-12% of group total. Our non-Nordic share will, with that said, take another jump, and we estimate it to be just over 45% of total. If you look on the right-hand side of the slide, you can see three colored building blocks, which I have stolen from our last quarterly presentation. I have them here to visualize where we want Raketech to be by the end of the year. Considering the numbers to your left and what I've talked about on previous slides today, I think we're on a very good path currently.

**Oskar Mühlbach**

CEO | Raketech

Now, over to Måns and the financial details from the quarter. I think that's slide nine.

**Måns Svalborn**

CFO | Raketech

Thank you, Oskar. Let's start on slide nine, please. We have increased revenues from last quarter with 6% and ended up on an all-time high. Main drivers are network sales that continued to increase from Q1 and now represent roughly one-fourth of our total revenues. We have, however, also seen growth within affiliation and media, with Sweden developing positively from Q1 with an increase of 4%. Japan as well continued to grow its share of revenues with 19% growth in the quarter. Organic growth was 25.7% year-over-year, of which about 20% represents our network sales. We also see a positive growth from our more traditional affiliation efforts with growth in Japan as well as other markets outside of Europe in combination with stable performance from the largest market, Sweden. Next slide, please.

**Måns Svalborn**

CFO | Raketech

This slide is a comparison slide of Q2 for 2020 versus Q2 of this year, and it is split on revenues, EBITDA, and net profit. We had something similar last quarter, but the point I'm making with this slide is that we have had good growth in both revenues and EBITDA of 25% and 20% respectively. Similar to last quarter, our net profit is still on par with last year, and this relates exclusively to increased amortization on our intangible assets. The increase stems primarily from recent acquisitions such as Lead Republik, but also following adjustments to earnouts relating to Casumba and CasinoFeber. We strive to have a fair and prudent approach when it comes to the value of our intangible assets, which means that we have, and will continue to have, quite high levels of amortization.

**Måns Svalborn**

CFO | Raketech

Worth pointing out, however, is that even though these costs lower our operating profit, they have no effect on our cash flow, and that's why our growth in net operating cash flow has seen a similar growth to our EBITDA, as you will see in coming slides. Next slide, please. As Oskar highlighted earlier in the presentation, there is a drop in NDC, both looking at Q2 of this year versus last year, but as well compared to Q1 of this year. Compared to Q2 of last year, the biggest declining contributor is the disposal of the finance vertical. The comparison is skewed in that regard. Last quarter, we also mentioned the effects on CasinoFeber from the Google update. As Oskar mentioned, it is recovering in July, but this has had an effect in the quarter compared to last year.

**Måns Svalborn**

CFO | Raketech

The fact that we're also present in more regions skews the comparison as well, as markets behave differently and are priced differently. With regards to Q2 versus Q1, the seasonality effect from a slower sporting calendar in the U.S. led to a decrease in Q2, although it was to some extent offset by a positive effect from the Euros. Having said this, there is also a general declining impact as we have, to some extent, changed our commercial approach. We have, during the last year, actively sought out to reach higher value leads through fewer operators simply because it makes more commercial sense. This has as well reduced the number of triggered NDCs, because as I mentioned, they come with a higher value. We're happy to see that this is bearing fruit through revenue growth, and it is progressing according to our expectation. Next slide, please.

**Måns Svalborn**

CFO | Raketech

With regard to revenue split, there isn't a big difference from Q1 or even last year. What I can mention is that there was a bit of an upswing in flat-fee sales during the Euros. For the vertical split, our sports revenues were positively impacted by the Euros, but the slower U.S. sports calendar led to a minor decrease in total for sports. Finally, and Oskar covered this earlier, revenues outside of the Nordics have continued to increase in Q2, now totaling 39%. Next slide, please. This slide illustrates the bridge between our EBITDA and net profit. The only line item of any size here is amortization of intangible assets, and this one I mentioned in a previous slide. As a reminder, these are up quite a bit since last year, both through recent acquisitions, but also as we have revalued some of the earnouts.

**Måns Svalborn**

CFO | Raketech

Again, the point here is that even though they are substantial, it's important to bear in mind that they are non-cash-affecting items. Next slide, please. In our statement of financial position, we have total assets amounting to EUR 93 million. There is essentially no material adjustment during the quarter. We have revalued earnouts of about EUR 1 million, and cash was EUR 5.5 million at the end of the quarter. Next slide, please. This slide illustrates our cash flow bridge Q1 versus Q2 of this year. Net cash from operations, which is the sum of the two very first boxes in the chart, amounted to EUR 3.1 million. I have, however, broken out an annual consultancy accrual that is non-recurring, but impacting the operational cash flow for the quarter.

**Måns Svalborn**

CFO | Raketech

This is just to illustrate that the normalized cash flow from operations of EUR 3.4 million normally is and will be close to our EBITDA. Apart from that, within our cash flow from investing activities, we have settled earnout payments of EUR 1.6 million, and this relates to CasinoFeber and Lead Republik. Since we are currently not utilizing any credit, cash flow from financing activities is minimal. Next slide, please. This slide illustrates our margin in Q2 of this year compared to last year. Essentially, our cost base is quite similar to last year. Direct costs related to our network sales are up substantially, which is an effect of this part of the business growing significantly during the year. Apart from that, other direct costs, employee expenses, and other operating costs are in absolute numbers, essentially unchanged from last year.

**Måns Svalborn**

CFO | Raketech

There has been a shift, however, from employees to contractors, which is an effect of our remote-ish work setup, but the net effect is, as I mentioned, essentially nil. A stable cost base means that as we grow in revenues, this is having a positive effect on the margin, as we see proof of in July, as Oskar mentioned earlier. Next slide, please. This last slide from me illustrates the margin development between Q1 to Q2 for this year. As you can see, the only real change is the effect of the continued growth in network sales, which has continued to increase in relative terms of total revenues. Again, as our other assets are experiencing growth in combination with stable other direct costs, employee costs, and indirect costs, this has a positive offsetting effect on the margin.



Måns Svalborn

CFO | Raketech

The last point I want to make is that we did see quite a substantial increase in margin from July. We are at 43%, which represents a change in the product mix. I should point out as well that this is the Adjusted EBITDA, as we will have non-recurring costs related to the recent acquisitions of about EUR 0.3 million in Q3. They will impact the reported EBITDA, but are, of course, just one-off costs. Thank you, and back to Oskar on slide 19, please.



Oskar Mühlbach

CEO | Raketech

Thank you, Måns. That was the last slide for today. We will soon make room for questions if there are any, but first, allow me to wrap things up. Let's start with the financials. We beat the record from Q4 of last year and managed to reach another all-time high, landing revenues at EUR 8.8 million for the quarter. This represents a growth of 25%, where organic growth, as a matter of fact, was even marginally higher, 25.7% year-over-year. EBITDA amounted to EUR 3.4 million, corresponding to a margin of close to 39%. With regards to other events and milestones, there are a few things worth mentioning. We secured new and increased funding of EUR 15 million, and we made two acquisitions.



Oskar Mühlbach

CEO | Raketech

Furthermore, I'm happy as it seems as our efforts into CasinoFeber is paying off, seeing it recovered in July, and our share of non-Nordic revenues also beat its old record, coming in on 39% of group total compared to 19% last year. Finally, following an exceptionally strong Q1, our sports-heavy U.S. revenues declined as expected quarter-over-quarter. Looking ahead, we can conclude July revenues of EUR 2.9 million. However, with a slightly changed product mix due to lower network share of total, the margin took a jump and landed at 43%. In the short perspective, we will put focus on ensuring that the newly acquired businesses are well integrated, in parallel, we will of course continue our current strategy. This means investments into R&D with the purpose of diversifying geographically and product-wise, as well as continuous efforts within the area of M&A.



Oskar Mühlbach

CEO | Raketech

Taking our continuously stable operational performance, our increased financial ability, our current growth rate, and our wide geographical footprint, where we have our toes dipped into many interesting growth markets into consideration, I very much look forward to this. Those were the final words for today. Let's move to the next slide and see if there are any questions.

Q&A

**Operator**

Thank you. If you wish to ask a question, please dial zero one on your telephone keypads now to enter the queue. Once your name is announced, you can ask your question. If you find your question is answered before it is your turn to speak, you can dial zero two to cancel. Once again that's zero one to ask question or zero two if you need to cancel. Currently, we just have one person in the queue. That's Erik Lindholm of Nordea. Please go ahead. Your line is open.

**Erik Lindholm-Röjestål**

Analyst | Nordea

Yes. Hi, Oskar. Hi, Måns. Starting off on the Infinileads acquisition, how much of the revenues for Infinileads comes from South American markets today? Is this sort of where you see the most growth coming from going forward? Thank you.

**Oskar Mühlbach**

CEO | Raketech

Good morning. Good question. At the moment, it's a relatively small part coming from South America. That's where the biggest growth opportunity is. The majority of the revenues come from Portugal, Spain, and Italy.

**Erik Lindholm-Röjestål**

Analyst | Nordea

All right, perfect. On the outlook for Q3 here, I guess it's fair to say that July is generally a slower month, and perhaps that August and September should be slightly stronger compared to July. Is that a fair assessment?

**Oskar Mühlbach**

CEO | Raketech

It's very hard to look into the crystal ball in that sense. Typically, seasonality-wise, you're right about that assumption. Potentially, one could argue that July was slightly boosted by the Euros this year. That would not typically happen in the summer. Aside from that, I would say that that assumption sounds reasonably right, but it's hard to guide exactly.

**Erik Lindholm-Röjestål**

Analyst | Nordea

Yeah. Perfect. The strong margin here in July, you elaborated on this, but is it fair to assume that you expect the margin to stay on the slightly higher level throughout Q3 and maybe also in Q4 and then not taking the new M&A into account there?

**Måns Svalborn**

CFO | Raketech

I think as Oskar pointed out, it can be a bit volatile considering the network revenue. It depends a little bit on that. I think we're targeting somewhere between what we had in Q2 and what we had in July. Somewhere in between that. We can't really be more precise, unfortunately.

**Erik Lindholm-Röjestål**

Analyst | Nordea

No, I get that. CasinoFeber, it has returned after the slump in December. Would you say that it's back to normal now and you expect it to continue on this level, or is there more upside here still?

**Oskar Mühlbach**

CEO | Raketech

It's always hard to project how it will move in the future, of course. We're very happy with seeing that all the hard work that we've put into the asset has paid off. We are back to where we were before the Google updates. Yeah, it's very hard to guide on where it will take off from here, of course, there's potential.

**Erik Lindholm-Röjestål**

Analyst | Nordea

Perfect. The QM Media acquisition. How fast do you think you can implement affiliation and the new marketing models into these assets and what sort of upside do you see to the current revenue run rates from doing this?

**Oskar Mühlbach**
CEO | Raketech

You're speaking about the U.S. in specifics now, I assume.

**Erik Lindholm-Röjestål**
Analyst | Nordea

Yeah, I guess the U.S. MLB the cricket website as well.

**Oskar Mühlbach**
CEO | Raketech

Yeah. If we look at the U.S. in specific, because that I think is an interesting one. The Picks and Parlays asset, the revenue is predominantly from subscriptions. By adding affiliation revenues, of course, there's a potentially huge upside in the long run, but it's really hard to guide on exactly how large that will be. We project it to take roughly 3 to 6 months to get our offer rolling. I'm super excited about it, but it's really hard to quantify at this point, unfortunately. We'll have to get back to you on that

**Erik Lindholm-Röjestål**
Analyst | Nordea

Perfect. I guess you have some earn-out payments coming up here, but you're also generating quite a lot of cash. Could we perhaps see buyback heading into next year, or is M&A still the primary way that you aim to deploy capital going forward here?

**Oskar Mühlbach**
CEO | Raketech

I would say that at this point, we see more opportunities to grow and generate shareholder value in that sense than to do buybacks. That is how we see it currently.

**Erik Lindholm-Röjestål**
Analyst | Nordea

Correct. A final question from me. Sorry, a lot of questions here. The margin guidance from the new M&A of increasing with 4 percentage points. Should we interpret this as you expecting a margin around 43% to 44% for 2022? That's Adjusted EBITDA margin I'm talking about.

**Oskar Mühlbach**
CEO | Raketech

Yeah. The adjusted one, I am exactly including the acquisitions, right? That is what you are asking for?

**Erik Lindholm-Röjestål**
Analyst | Nordea

Yeah.

**Oskar Mühlbach**
CEO | Raketech

All right. Yeah. Midterm, after integration and so forth, we are looking at exactly that, what you're saying, 44, 45+ or something like that. That's after integration when they're fully up and running, all the acquisitions.

**Erik Lindholm-Röjestål**
Analyst | Nordea

Perfect. Those were my questions. Thank you.

**Operator**

Thank you. Once again, if there are any further questions, please dial zero one on your telephone keypads now. Okay, it seems there's no further questions from the phone lines. I'll hand back to our speakers for the closing comments.

**Oskar Mühlbach**
CEO | Raketech

All right. Thank you everyone for joining the presentation today. We look forward to talking to you again in connection with the Q3 report, which is in November.