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Raketech

Q1 2021



Speakers



Erik Lindholm-Röjestål
Analyst | Nordea



Måns Svalborn
CFO | Raketech Group



Operator



Oskar Mühlbach
CEO | Raketech Group

Prepared Remarks



Oskar Mühlbach
CEO | Raketech Group

Thank you for that. Good morning, and welcome to Raketech's Q1 2021 presentation. My name is Oskar Mühlbach. I'm the group CEO, and as always, our group CFO, Måns Svalborn, is also here with me today. Before we dive into the details, let's have a quick look at today's agenda. That's on slide three. During the first section, highlights, I will walk you through the financial and operational key numbers and achievements for the quarter. As a special treat, I have today also included a slide on our geographical footprint, which has been requested from time to time. During the financial section, Måns will walk you through the financial details as always, after which I will wrap up with some key takeaways. If you have any questions, we'll do our very best at the end to answer them during the Q&A session. Let's move on to slide four, please.



Oskar Mühlbach
CEO | Raketech Group

As you might recall, we finished 2020 off with a record quarter of EUR 8.5 million in revenues. As Q1 typically is weaker than Q4 in terms of seasonality, we didn't expect this strong momentum to continue into Q1, which it, however, did. Revenues totaled EUR 8.3 million, which represents a growth of close to 27% and only 2% less than seasonally stronger Q4, which as a matter of fact, also had a couple of more trading days compared to Q1. Organic growth was 5.4% year-over-year. To some extent, we did, however, see lower activity on primarily the Nordic markets, even though CasinoFeber is slowly but safely gaining ground again, it is still performing less than before the Google update in December as discussed in our last report.



Oskar Mühlbach
CEO | Raketech Group

Furthermore, a steep increase in gambling tax in Denmark lowered revenues from this market, as well as continuous problems with payments in Norway affecting our clients, to some extent naturally spilling over to us. On the positive side, however, our network sales and Japanese efforts to a large degree managed to compensate for these events, and in combination with Super Bowl boosting our U.S. revenues, we managed to deliver solid performance, almost in line with Q4. Additionally, I'm happy to be able to conclude that most of our Swedish assets showed growth despite the Swedish market decline in Q1 versus Q4, according to the Swedish tax numbers. This is of course, great in the short perspective, but I want to take the opportunity to point out that this is even more important in the long-term perspective.



Oskar Mühlbach
CEO | Raketech Group

Having a solid ground to stand on in terms of diversified commercial offering, different jurisdictions, clients, and markets is core in our strategy, and I'm very pleased to see that it seems to be paying off with regards to our ability to mitigate temporary volatility. EBITDA amounted to EUR 3.2 million, representing a growth of 22% year-over-year. As discussed in previous presentations, we are investing into expansion and R&D, which is affecting EBITDA in the short to midterm. The addition of lower-margin network sales naturally has an effect on margin. Even with that taken into consideration, we do, however, expect not only EBITDA, but also margins to increase as we grow with our core offering. NDC amounted to just shy of 40,000, which represents an annual growth of 23.5%.



Oskar Mühlbach
CEO | Raketech Group

With the decline compared to Q4, this is perfectly in line with our own expectations with regards to seasonality, but it also tells you that player values in specifically Japan and the U.S. are higher than on other markets. This as we managed to maintain high revenue levels despite decreased NDC intake quarter-over-quarter. April has had a good start with revenues amounting to EUR 2.8 million. Next slide, please. That's slide five. To some operational highlights. In connection with our last report, we announced that we in Q1 had obtained licenses to operate in two additional U.S. states, Virginia and Michigan. As expected, the rollout of these states had an instant positive effect on our U.S. revenues. Super Bowl also increased our mid-quarter U.S. revenues as operators were fighting over users.



Oskar Mühlbach
CEO | Raketech Group

As we've mentioned before, we expect the U.S. market to continue to be volatile as it is event-driven by nature. This is also amplified by the fact that revenues in the U.S. are 100% CPA, which means that all payments are upfront with no or little rev share. This market mechanic is potentially something that sometimes is overlooked when analyzing U.S. revenues in our industry, and also the reason why we, in our previous report, mentioned that the NDC KPI might not be as valuable as an analyst tool anymore as the nature of the U.S. market specifically differs so much from others where rev share or hybrid models are more predominant.



Oskar Mühlbach
CEO | Raketech Group

Even though all our operational KPIs such as Google rankings, et cetera, are developing according to plan, we have, due to the lack of Super Bowl, seen slightly lower revenues as compared to Q1 on our U.S. assets in April. Keeping in mind that revenues are by nature, as I just mentioned, upfront and not rev share. On another note, I'm very happy to see that CasinoFeber is showing positive signs. The team has worked hard to mitigate the negative effects from the Q4 Google update. It seems to be going in the right direction. SEO is, however, not a sprint, but rather a marathon. Even though I'm positive and confident, we need to keep monitoring the development and keep our efforts up going forward as well. With regards to sports, we are very much looking forward to the European championships in football coming up soon.



Oskar Mühlbach
CEO | Raketech Group

On this note, the Raketech team has worked hard to ensure we are prepared to offer not only the users with good experiences, but also our clients, the operators with competitive commercial offerings. A little extra exciting perhaps is that this type of event typically attracts not only the hardcore sports bettor, but also to some extent the more recreational players. These players furthermore have a tendency to spill over into other gambling verticals such as casino to a larger degree than the more hardcore players. If we're lucky, the euros could have both short and midterm positive effects on the casino industry as well, and not only in sports. Last but not least, our current Chairman of the Board, Christian Lundberg, has declined re-election. The nomination committee has therefore suggested industry veteran Ulrik Bengtsson to take on the role.



Oskar Mühlbach
CEO | Raketech Group

At this time, I can't think of any better person to come in and help me and Raketech to take the next step. Ulrik has extensive experience from some of the iGaming industry's most successful companies, such as Betsson and William Hill, and he is also used to working in high-paced global environments and has an extensive network within the industry, which I believe will come in very handy considering Raketech's growth ambitions. Welcome, Ulrik, and thank you, Christian. Slide six, please. Now a little something on our geographical split. For commercial reasons and competitive reasons, we don't normally disclose the exact split between our markets. As a matter of fact, to continuously disclose this would increase the risk of misunderstandings as markets to quite large extent swing back and forth depending on temporary legislative updates, differences in seasonality, new casinos opening up, et cetera.



Oskar Mühlbach
CEO | Raketech Group

With that said, we therefore believe that the risk of creating misunderstandings or misinterpretations of our performance in combination with competitive disadvantages is too large to continuously reveal this split. However, I do on the other hand understand that not having at least a reasonably good overview creates uncertainty, which of course is negative. Therefore, and also because our geographical footprint is substantially larger than only a year ago, we have chosen to make a deep dive into this today as a one-off. Bear with me. Out of our total revenues, 35% was during Q1 non-Nordic. This means that we've come far when it comes to lowering our Nordic dependency, but more importantly, it also means we have our toes dipped into many interesting markets. With that said, Sweden is still by far our largest market, representing 38% of the group's total.

**Oskar Mühlbach**
CEO | Raketech Group

This is where we have our roots and the market we know the best. It's regulated, the operators are here to stay, and we have established good relationships with all of them. With a generally positive development within our Swedish asset portfolio, it supports my earlier statements about Sweden being an important market also in the future for Raketech. The fact is that being the biggest affiliate on the Swedish market puts us in a quite unique position. Having such a large share of the Swedish gambling audience visiting our websites every month, we have the ability and opportunity to help operators explore marketing solutions, not only targeting new players, but over time also help operators both retain and engage existing users. The rest of the Nordics represented 27% of revenues during Q1, where Norway and Finland are roughly the same size, and Denmark naturally slightly smaller.

**Oskar Mühlbach**
CEO | Raketech Group

Denmark is dominated by sports in our portfolio, while Norway and Finland are more diversified. Denmark is, as you know, a regulated market and is therefore more stable like the Swedish market, which naturally means reactivation and engagement marketing as more important. Norway and Finland, on the other hand, being unregulated means higher level of volatility, both in terms of operators being active, investments going into the respective markets, and others such as the payment blocks affecting Norway during Q1. With regards to the rest of the world, I'm referring to markets such as Canada, New Zealand, India, Brazil, but also to European markets such as the U.K., Germany, Spain, and Italy. Raketech operates assets in many countries, but also offers affiliation through our network.

**Oskar Mühlbach**
CEO | Raketech Group

The network contains a large variety of sub-affiliates on a series of markets, which allows us to offer quick entry into new regions without upfront investments into building organic assets, which normally takes a few years before showing results. This approach is perfect for volatile markets where operators wish to try their luck. On markets where we see positive results, we normally also invest in long-term organic websites such as comparison sites. With regards to Japan, it's been a tremendous success for us so far. It is a non-regulated market, but the interest for online gambling is large and growing. We offer comparison guides where users new to the iGaming world can compare commercial offers or quality of different casinos, as well as communities where players can discuss their experiences. Both of these dimensions are very important for the consumer at this stage of the market maturity.

**Oskar Mühlbach**
CEO | Raketech Group

Our sales in Japan were during Q1 11% of the group's total. The U.S. made up 6% during Q1, and this is a market which is of specific interest for us. So far, a majority of the states have not opened up for online gambling yet, which means that the untapped potential is large. Furthermore, the share of gambling that is online compared to offline is still low, even in states that have regulated. We believe that it's only a matter of time before the American market is fully regulated and digitally mature. If this will take three, five, or seven years is however hard to say, but the development is irreversible. Interesting to note about the American market is the obvious fact that it is turning white without passing gray.

**Oskar Mühlbach**
CEO | Raketech Group

We therefore believe that in order to be long-term successful, we need to offer a larger variety of services to the consumer besides the more traditional affiliation, top list comparison websites. That works so well on gray markets. We are addressing the U.S. both with in-house long-term initiatives such as HowToBet, TV Sports Guide, and more, but in order to make a significant difference in the short perspective, we foresee M&A as our primary tool. As you might recall from previous presentations, M&A is something we work intensively with a dedicated team in place addressing this and nothing else. With regards to growth, we foresee the largest growth originally both from Sweden, but primarily perhaps from the more immature markets outside of the Nordics, including the U.S. Next slide, please. Slide seven.



Oskar Mühlbach
CEO | Raketech Group

Before I give over the word to Måns, I want to just very quickly remind everyone about our tactics and goals for 2021. I showed this slide in our previous presentation, but I think it's worth mentioning it again as it on a high level explains what we're aiming to do this year. On the left-hand side of the slide, I've listed the activities or deliverables we are focusing on. As you can see, they include an accelerated M&A focus, which is listed here because we believe that our model of integrating acquisitions into central operations add great value both to us and the acquired party. This also explains why we are currently working on optimizing our capital structure.



Oskar Mühlbach
CEO | Raketech Group

The so-called Raketech ecosystem, which is the next item on the list, is basically a summary of all the efforts we are doing with regards to using one asset to promote another, so-called cross-promotion, or where we use data from one asset to buy programmatic external advertisement on behalf of an operator, or the use of shared user databases to provide relevant CRM messages to users on certain assets from other parts of our portfolio. Providing odds from an odds comparison to the TV Sports Guide audience is an example of such an activity. We believe there is much more to gain here and that we've only scraped the surface of this potential, which is why it's also mentioned in this list.



Oskar Mühlbach
CEO | Raketech Group

On the same theme is also the next item, the monetization from our widened offering, specifically with regards to mature markets such as Sweden, where operators fight not only over new players, but also very much over retaining and engaging existing users. We believe that we could offer services that would bring high value to the operators, much relating to what I just discussed in the previous bullet. Mentioned on the next line is taking existing assets to new markets, which is core in our strategy. After proving something successful on a single market, we always lay out a plan to make the asset global or at least multi-regional. In this way, we scale efficiently and can quicker than starting from scratch gain ground on new markets.



Oskar Mühlbach
CEO | Raketech Group

Having spent time creating scalable platforms and also being able to see organic growth from many of these initiatives, this is one of our top priorities. Last but not least, we aim to add new content types such as video, podcasts, tipster services, or others to ensure that we are where our users want us to be, and to, of course, make our assets even more valuable to the users and our clients, the operators. By doing all of this, we hope to be able to, at the end of 2021, conclude that Raketech has reached the following objectives. Firstly, a solid global footprint where no single market is having a too large share of the group's total. Second, large and profitable M&A-driven growth, where we during the year are targeting acquisitions in the U.S. or other growth markets, primarily.



Oskar Mühlbach
CEO | Raketech Group

Thirdly, being perceived as the full service provider that we are by the operators. Today, operators turn to media agencies or performance agencies for marketing and affiliates for affiliation. We are a one-stop shop for marketing within our industry. We need to get that message out. Last but not least, we aim to have significant revenues from the USA. Måns, you are up next. Let's have a look at our financial details. Next slide, please.



Måns Svalborn
CFO | Raketech Group

Thank you, Oskar. Let's start on slide nine, please. We were expecting Q1 to be seasonally lower than Q4, at least when it comes to the Nordic regions. We did see some effect of this primarily in Sweden. Sweden was also to some extent affected by the Google update on CasinoFeber, as Oskar pointed out. On the positive side, Japan has outperformed Q4 with an increase of close to 50%. Network sales are up 10%. These revenues are now just about 20% of total revenues. Apart from this, as Oskar already mentioned, we've seen growth in U.S. revenues. To point out again the disposal of the finance vertical, which last year was about 5% of revenues and are distorting the comparisons to some extent, specifically for Sweden. Next slide, please.

**Måns Svalborn**

CFO | Raketech Group

This slide is a comparison slide of Q1 of 2020 versus Q1 of this year. It is split on revenues, EBITDA, and net profit. We had something similar last quarter. The point I'm making with this slide is that we have had good growth in both revenues and EBITDA, of which the latter is up 22%. Similar to last quarter, our net profit is up, but in relative terms, the growth is, as you can see, lower. This relates almost exclusively to increased amortization on our intangible assets. The increase stems primarily from recent acquisitions such as Lead Republik, also following adjustment to earn-outs relating to Casumba.

**Måns Svalborn**

CFO | Raketech Group

We try to have a quite 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. Worth pointing out, however, is that even though these costs lower our operating profits, they have no effect on our cash flow. That's why our growth in net operating cash flow has seen a similar growth to that of our EBITDA, as you will see in the coming slide. Next slide, please. This slide illustrates our NDC development for last five quarter. As Oskar pointed out, we did see an expected decrease in Q1 compared to Q4. This is to some extent a seasonality effect, also, again, an effect of the slowdown in CasinoFeber.

**Måns Svalborn**

CFO | Raketech Group

The disposal of the finance vertical plays its part here as well, which of course also lowers NDC in Sweden. As a contrast to this, we're sending fewer players to the U.S. and Japan, but at a higher value. We did make this point last quarter, and it does make sense to look at NDC development on a regional level and if it's network sales or not, and we do use this as a measurement of our SEO efficiency. It needs to be broken down and analyzed and not be used as a performance measure as a total number. Just a reminder on that. Next slide, please. With regards to the revenue split, there isn't a big difference from Q4. CPA, rev share, and fixed fees are more or less in line.

**Måns Svalborn**

CFO | Raketech Group

We did, however, see a shift within our regions with a somewhat slower Sweden, which has a mix of CPA and rev share. The difference was picked up by the growth in Japan, which is predominantly rev share, and an increase in U.S. sales, which is exclusively CPA. Compared to Q1 of 2020, the increase in CPA relates primarily to the added network sales and again, added U.S. sales. For our vertical split, we are at 17% sport, which percentage-wise is in line with Q1 of 2020. Worth pointing out is that since we've added quite a bit of casino revenues through Lead Republik, we're up 27% in absolute terms. Sport revenues are gaining ground compared to last year. On this pie chart, we also see the effect of the disposal of our finance vertical, which was previously included in the part we call other.

**Måns Svalborn**

CFO | Raketech Group

Finally, Oskar covered this earlier, revenues outside of the Nordics have increased to 35% in Q1. Next slide, please. This slide shows the bridge between our EBITDA and net profit. The only line item of any size here is amortization on our intangible assets. 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 revalue primarily Casumba. Again, the point here is that even though they are substantial, it is 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. Compared to Q4, I can highlight two points. The first relates to our earnouts.

**Måns Svalborn**

CFO | Raketech Group

As you gather, Japan has performed very well, which means that we have had to revalue the earnout this quarter. The second point is that we have repaid the utilized part of our credit facility with Swedbank. Contractually, the facility runs until end of year, but as our cash flow continues to be positive, we repaid it in full during March. We will have a look at the cash flow on the next slide. Next slide, please. This slide illustrates our cash flow bridge Q4 of last year versus Q1 of this year. Net cash from operations of EUR 3.8 million is largely a reflection of our higher profitability. It's not a perfect match with our EBITDA, and over time, our operational cash flow correlates very well with our EBITDA.

**Måns Svalborn**

CFO | Raketech Group

The difference you see here is mainly because of timing effects from trade payables and trade receivables. Irrespective of this, it's obviously a significant increase if we compare this quarter with Q1 of last year. Within our cash flow from investing activities, we've settled earnout payments of EUR 2.7 million, and this relates to CasinoFeber and Casumba. As I mentioned in the previous slide, we repaid the utilized part of the credit facility. Next slide, please. This slide illustrates our margin in Q1 of this year compared to last year. Essentially, our cost base is quite similar to last year. Direct costs are substantially up, which is an effect of having Lead Republik consolidated for the full quarter of this year, compared to only March of last year. Lead Republik has as well, as we pointed out, grown significantly during the year.

**Måns Svalborn**

CFO | Raketech Group

On the positive side, with regards to the margin, the fact that we are managing our outstanding trade receivables more efficiently means we're taking less cost relating to the risk connected to this balance sheet item, but also decreased actual losses. This obviously pushes the margin in a positive direction. The other two big line items, employee expenses and other operating costs are in absolute numbers, essentially unchanged from last year. There's been a shift, however, from employees to contractors, which is an effect of our remotish work set up, but the net effect is, as I mentioned, essentially nil. The stable cost base is something we are quite satisfied with, considering we've since last year done a lot of investments in our product portfolio and operational set up. We've taken current assets to other markets as well as added U.S. and Japan as significant markets.

**Måns Svalborn**

CFO | Raketech Group

Next slide, please. This last slide from me illustrates the margin development between Q4 of 2020 to Q1 2021. As you can see, the only real change is the effect of the continued growth in network sales, which has increased in relative terms of total revenue. This part of our business has a lot of growth potential, and it's an appreciated added service for our clients. It also shows its value from a risk-balancing perspective, where we're becoming less dependent on local regional seasonality or event-driven effects, as the network sales operating model can be more agile. Apart from that, employee expenses and other operating costs are very much in line with the previous quarter. Thank you. Back to Oskar and slide 19, please.

**Oskar Mühlbach**

CEO | Raketech Group

Thank you, Måns. That was the last slide of today. Please allow me to wrap up with some takeaways. Financially, Q1 was strong, thanks to strong performance from our network, Japan, and the U.S. We delivered numbers in line with last year's record Q4. Year-over-year, this equals a growth of close to 27%, where 5% was organic. Our EBITDA margin landed at 39%, which is comforting, taking into consideration we are investing into growth, and our network revenues is taking a fair share of total. Worth pointing out at the same time is that additional revenues from our core operation is expected to increase these margins over time. With regards to milestones and events, we added two more U.S. state licenses. Ulrik Bengtsson was nominated to become the new chairman of the board.

**Oskar Mühlbach**

CEO | Raketech Group

We had our first full quarter without the finance vertical, and we managed to reach 35% of revenues from outside of the Nordics. CasinoFeber, our largest asset, has started to show growth again at the same time as our other Swedish assets generated growth year-over-year despite low seasonality, something I'm a little bit extra happy about. Furthermore, we are working hard to prepare ourselves for the European Championships in football in June. Our April revenues amounted to EUR 2.8 million. Finally, last time, I spoke about exploring and potentially improving our capital structure to ensure we have the capability to maximize our growth opportunity with regards to M&A specifically. I, therefore, want to take this opportunity to ensure you that this is still top priority for us and something we are working intensively with.

**Oskar Mühlbach**

CEO | Raketech Group

However, at this point, I can't give you any further details, but I instead have to ask to get back to you on this when I can. Currently, there are a lot of exciting things happening in our industry and within Raketech, with five consecutive stable quarters supporting statements about our operational stability. I'm very excited about the future and about 2021 specifically. We have a great team in place. We scale in a good way, and we seem to be doing roughly the right things. A big thank you to all the Raketechers out there for all your efforts and devotion. That was all for today. Let's see if there are any questions. Next slide, please.

Q&A

**Operator**

Ladies and gentlemen, we now wait to see your questions. Our first question comes from Erik Lindholm from Nordea. Please go ahead. Your line is now open.

**Erik Lindholm-Röjestål**

Analyst | Nordea

Yes. Hi, Oskar. Hi, Måns. Looking at April and then sort of the rest of Q2 here, is it fair to assume that April is representative for the rest of the quarter, or do you expect a step up in June with sports events such as the Euro 2020? Thank you.

**Oskar Mühlbach**

CEO | Raketech Group

Yep. Good morning, Erik. Thanks for the question. I would say that April numbers indicate that we had a strong start. At the same time, I think it would be fair to assess, I guess, without making any guidance in detail. I think it would be fair to guess that the rest of the quarter would be quite strong taking into regards the European Championships in football coming up.

**Erik Lindholm-Röjestål**

Analyst | Nordea

All right, that makes sense. Looking at CasinoFeber then, is it possible to sort of quantify the impact of the slightly weaker performance in Q1 here?

**Oskar Mühlbach**

CEO | Raketech Group

We have chosen not to disclose the exact numbers, but CasinoFeber is our largest asset, all categories. The impact is significant, but I think we are now back to a place where we don't foresee any significant long-term effect of the situation that was earlier this quarter.

**Erik Lindholm-Röjestål**

Analyst | Nordea

Okay. It's kind of fair to assume that the site is already back to a normal level in Q2 then, or will this take slightly longer or no?

**Oskar Mühlbach**

CEO | Raketech Group

As I said in the presentation, it's a marathon SEO work, and single assets will fluctuate back and forth during quarters, but I'm pretty confident that we will be back on track and it won't have a long-term effect on us.

**Erik Lindholm-Röjestål**

Analyst | Nordea

All right. Great. On the margins, you said that you expect your margins to increase here as you grow your core offering. Is it fair to assume that margins improve already here in 2021, or is this more of a long-term target to grow your margins from this level?

**Måns Svalborn**

CFO | Raketech Group

It's more of a long term. I think short term, we're not expecting any major deviations, and we've been quite stable around this level, and we expect that to continue. Again, to point out that the mix we have now with the network sales, which is lower margin, so if this continues to grow, that can obviously push the margin lower. At the same time, as Oskar pointed out, with continued organic growth on more traditional assets, this will improve margin over time. Short term, it will be similar to the levels we are now.

**Erik Lindholm-Röjestål**

Analyst | Nordea

All right, perfect. Looking at Japan, which seems to be working very well, can you shed some light on what is working so well and what sort of market growth do you expect for this market in the coming years? Thank you.



Oskar Mühlbach
CEO | Raketech Group

Yeah. It is a very interesting market, Japan, and we have a fantastic team in place. I must give them credit for a job very well done. I think it would be fair to say that we would expect double-digit growth in Japan, in the foreseeable future.



Erik Lindholm-Röjestål
Analyst | Nordea

All right. Perfect. Finally, a question on the earn outs. On the backs of the slightly weaker performance from Casumba, do you expect continued earn out payments on this level that you have now in Q1 for the rest of the year?



Måns Svalborn
CFO | Raketech Group

Yes, we do. I think that's a fair assessment to make. Yes. That's the short term. Yes.



Erik Lindholm-Röjestål
Analyst | Nordea

Yep. Perfect. That's it from me. Thank you.



Operator

Thank you. There's another reminder. If you do wish to ask a question, please press zero one on your telephone keypad now.

Okay, there appear to be no further questions. I return the conference to speakers for any closing remarks.



Oskar Mühlbach
CEO | Raketech Group

All right. Thank you very much for joining us today. We look forward to talking to you again in connection with the Q2 report in August. Thank you.