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Raketech Group Holding plc (RAKE.SE)

Q3 2019 Earnings Call

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MANAGEMENT DISCUSSION SECTION

Operator: Ladies and gentlemen, welcome to the Raketech Q3 Reports 2019. Today, I am pleased to present CEO, Michael Holmberg and CFO, Andreas Kovacs. For the first half of the call, all participants will be in listen-only mode and afterwards there'll be a question-and-answer session. Speakers, please begin.

Michael Holmberg

Chief Executive Officer, Raketech Group Holding plc

Thank you, operator, and good morning, everyone and welcome to today's presentation of Raketech's Q3 2019 report. So my name is Michael Holmberg and I'm the CEO of Raketech. In the room with me is also our CFO, Andreas Kovacs and we look forward to taking you through the presentation.

Let's move to the next slide, please and look at the agenda. So, as we normally do, we will start with a short introduction to Raketech and then move directly to a review of the quarter. Andreas will take you through the financials and then we will conclude with an update on our geo expansion strategy. What we do within sustainability and the key takeaways before handing over for questions.

Let's move on to the next slide. If you are not new to Raketech, you've seen this slide before. So, let's focus on some key facts. First off, the Nordic region is our core market, as we will tell you more about later in the presentation. We are now accelerating our global expansion and for the first time 10% of our revenue come from markets outside of the Nordics. This is a milestone for us.

In this context, I also want to clarify our Swedish share. I sometimes meet investors that think we are all about Sweden. That's not the case. 64% of the revenue in the quarter came from gaming in Sweden. Raketech is a product company and we focus on creating innovative products with high quality. We're currently building new products at the higher pace than ever before in several markets.

As a guiding principle, we also aim that all our products shall have a global potential. Working with products we have about 90 employees, most of them based in Malta, but I also see more people working in other markets going forward as we continue to grow on our global presence.

Lastly, we have a proven M&A track record and I'll continue to explore acquisition opportunities going forward. We do, however, not make acquisitions just for the sake of it. We're highly selective and see companies that clearly complement our business strategy. Next slide, please.

So the purpose of Raketech's business is simple. We match consumer needs with the right company. Our main focus is sports and gambling, but we have products for other needs, too. And we have advertisers from a plethora of industries and services. I want to clarify the business model, here is how it works and here is an example.

So, consumer is interested in finding out more about the TIME Magazine Person of the Year. This award is an annual issue of the United States news magazine, TIME, that features and profiles a person, a group, an idea or an object that's for better or for worse [ph] has done the (00:03:22) most influenced events of the year. Big mainstream event right now in the world, as most people do, a consumer Googles it and this is where we come into the picture. In this example, our product, Betpal.com, which is a global product provides some interesting article about the topic.

In addition, the topic is also open for betting in our example here with Betway. So the consumer clicks on the link [indiscernible] (00:03:49) for say, Greta Thunberg or for Donald Trump. As we have guided the consumer to become a customer with Betway. Betway pays us a commission. So the writers and editors that work for Raketech products, they invest time into producing articles for relevant events, in most cases about sports and gambling. In this case also, a broader annual event that gathers millions of people's interest and then events you can place a bet on the outcome of it. And when we do this well, producing quality articles [ph] on (00:04:26) relevant topics, we generate interest from the public that generates revenue for our partners, the betting companies and in the end then for Raketech.

Let's move to the quarter review on slide number 7. So, quarterly financial highlights and let me start by stating that I would have wanted to report positive growth compared to last year and therefore, I'm not satisfied with the outcome in the quarter. However, despite the negative growth numbers compared to Q3 2018, we do have a positive underlying growth trend comparing to earlier this year. I'm pleased with the traffic numbers and that the underlying NDC development is in line with last year despite the Swedish regulation.

Compared to the second quarter, NDC growth is 7%, which gives further comfort. The revenue decrease compared to last year is due to the Swedish regulation and lower revenues coming from Pay N Play casinos. In hindsight, we have concluded that last year was exceptional in this regard. We also had about 2% negative currency effects. However, what is positive also in this case is that revenue is up about 5% compared to Q2, indicating that the Swedish market's downturn has leveled out.

Adjusted EBITDA amounted to €2.7 million corresponding to a margin of 46%. The decrease is explained by our investment from geo expansion, but also a consequence of strong performance for our media products which have a lower margin than the rest of the product mix.

Last year, about 20% of our revenue were from regulated markets. With Sweden now regulated, the number is around 60%. In relation to our profitability and underlying growth, I believe this shows our capability to manage new market conditions pretty well, but also gives us confidence to grow in a non-regulated markets and it is likely that the non-regulated revenue number might increase over time.

The strongest area in this quarter is the cash flow where we can report a strong increase compared to last year. We will continue to focus on improving cash flows going forward. Andreas will dig deeper into the numbers later in the presentation.

Let's move to the next slide and the business update. I've already mentioned that the Swedish market has leveled out based on the fact that indices are growing quarter-on-quarter. The market is at the same time still challenging and according to various stakeholders in the industry, among them several of the larger licensed operators, [ph] generalization (00:07:12) is not where it should be. We can confirm that such patterns indicate increasing trends on for instance, casino without the license, if you compare Q3 to Q1 of 2019.

From Raketech side, we only work with regulated operators in Sweden and I believe we have very strong relationships in the market. Many of our efforts right now are in the global expansion strategy. In the quarter, we have acquired Casumba Media which I will talk about on the next slide. And we've also adapted the management team to cope with expansion.

Investments have a somewhat negative effect on margins, but are necessary to reach the global position that we are aiming for. In the quarter, our guide products have exhibited strong growth and for the first time, we have a revenue contribution from Germany. Based on our strategy, we have further developed our paid media strategy from our Finnish asset, TVmatsit, in the German equivalent with promising results. This proves our capability to take winning concepts from one market and replicate in new markets.

Next slide, please. Casumba Media acquisition in Japan, so why are we going to Japan? The population is 13 times the Swedish. It's a market that doesn't have 20 years of online gaming operators and marketing – targeting the market as we have in Sweden. The appetite for online gambling is just about to take-off. Offline gambling is very big, but not yet online. Reports say the local offline game pachinko has an annual turnover that is 30 times higher than the turnover of Las Vegas and twice the annual combined Japanese car export.

Take into consideration that Japanese people like to do their homework before they sign-up for online services. They Google, they read, they want to understand. With that said, there is an important role for affiliates to educate players. This means also an entry barrier for other affiliates. You need to be local. You need to have a quality. You need to understand the culture. That indicates a high relevancy for what we do in the market. And we are local and we guide consumers to the best products online. That's our vision.

And when Japanese people make their call, statistics show that they are loyal. That indicates good lifetime value for players. There are no land-based casinos in the country today, but they will open up soon. And this will, in our view, trigger legitimacy and then enthusiasm about online gaming. It's also clear that some of our partners show an interest in the Japanese market.

The acquisition of Casumba Media gives Raketech an immediate footprint in the Japanese market and marks our first presence in Asia and in line with our strategy to build businesses in at least three continents. [ph] Reintegration (00:10:17) is progressing according to plan and the entrepreneurs have been brought on board in direct facsimile with the ambition to build long-term organic growth from the Japanese market and potentially from other Asian markets too.

Next slide, please. Since we have some updates on our management team, I would like to take a minute to take you through how we are scaling the management team to create more bandwidth to drive our growth journey. Måns Svalborn will join as new CFO. He's currently working beside Andreas and will start the new role on the 1st

of December. At the same time, Andreas will enter the role of Director of Business Development and focus fully on geographical expansion, including M&A, but also continue to focus on investor relations. So you'll be seeing Andreas also in the future.

Johan Svensson has decided to step down from his operational role as CCO and focus fully on expansion on a strategic level as Founder and from his board position. This will include a big focus on the US with a strategy for Raketech in that market. We will talk more about the US when we have more information to share, but where we stand today we believe that we will have a role to [ph] fill in market (00:11:36). In connection with this, we have also recruited a new CMO, Klas Winberg, who joins us from Catena Media. All in all, management and the organization is now set and ready to conquer the world.

I've highlighted some of management's previous relevant employers from within and outside of the industry. Together, the management team has more than 50 years of experience from gaming, primarily from the operator side, but also from B2B.

I'll now hand over to Andreas for the financial run-through.

Andreas Kovacs

Chief Financial Officer, Raketech Group Holding plc

Thank you very much, Michael. So let's jump directly to slide number 12 to look at the financials. So we're satisfied to be able to report revenue increase quarter-on-quarter. The 5% increase versus the second quarter is driven by the strong underlying traffic growth, [ph] driven by the increased demand of NDCs (00:12:27), which grew by 7%. However, we are not satisfied with the declined revenue in the third quarter versus same period last year. This has declined by 15%.

The decline is mainly explained by the low value per player as demand of NDCs is in line with the same period last year. The decline in value when comparing year-on-year is mainly driven by the [ph] tax sector (00:12:52) in Sweden, but also the negative impact of the forex. A lot of our peers have reported a positive [ph] FX (00:13:00) from the weaker Swedish krona versus the euro, but for us it is the opposite. [indiscernible] (00:13:06) largest market, majority of our players play in SEK, but we get paid from our customers, the operators in Europe, affecting us negatively. Also, the increased [indiscernible] (00:13:17) have a negative effect in the short-term, but will have a positive effect during the upcoming year.

With that said, let us look forward into our revenue split and look at the next slide, please. Our revenue split continue to move towards rev share. And during the third quarter, 56% of our revenues related to recurring revenue in form of rev share, representing an increase by 11% compared to last quarter and 7% compared to last year. As mentioned before, [indiscernible] (00:13:46) certain delay in the revenue effect, but shall have the same similar effect over the longer time.

If you look at the flat fees, it amounted to 12% of total revenues in Q3. The decline is primarily explained by the operators' appetite towards the pure performance-based marketing, driving the rev share portion other than flat fees and CPA. And that's the trend also that we have seen on the Swedish market, which we have mentioned earlier.

The casino vertical is still dominating our revenue split and amounts to 67.3%. However, in line with our sports media platform is growing in form of TV Sports Guide. We have also increased our sports revenues. The increased sports revenues compared to last year amounted to 11% and is in line with the Q2 results.

Let's look into the next slide, please. So what's happening with our EBITDA margin? Our EBITDA margin declined to 45.5% and this is primarily explained by three things. One is the excellent reinvestment in our platforms to deliver on our global strategy. Two, the channelization of Paid Media through our products outside of the Nordics. And three, a smaller effect also from our in-house casino brand, Rapidi, as both Paid Media and Rapidi initiatives have certain lower margins.

We aim to be a global company in line with our strategy of diversification, and for that we need to invest, and this leads to lower margins during this investment phase. We are for the first time as a company reporting an EBITDA margin below 50%, but at the same time we also report for the first time 10% of our revenues outside of the Nordics. And this journey has only begun, as Michael mentioned.

Direct costs, if you look at in absolute numbers, amounts to €0.8 million, representing an increase by 3.2% of revenues. This is primarily explained by our intensified Paid Media strategy as mentioned, [ph] both driven by the TVmatsit acquisition. We with the (00:15:54) help of the acquired technology are able to channelize traffic in a successful way, but with certain lower margins throughout our assets. We have mainly used this [ph] basic (00:16:08) capacity to market our channels outside the Nordics.

If you look at the total [indiscernible] (00:16:16), these are in line with last quarter, but this led to positive [ph] enrollment (00:16:21) in relation to revenue by 1.3%, explained by the higher revenue levels in Q3 versus Q2. Other operating expenses increased in relation to revenue by 3.9%, and this is driven by the investments in our product portfolio, mainly outside of Sweden.

Next slide, please. Net profit for the quarter amounted to €1.2 million. And the main cost item between EBITDA and net profit relates to depreciation and amortization, which amounted to €1.2 million for the quarter. The increased amortization in the quarter is mainly driven by the recently acquired assets from Casumba Media, but also that we get the full effect of the [ph] TVmatsit (00:17:05) acquisition.

Please keep in mind that the only cash item below EBITDA refers to interest expenses, which amounts to €56,000. Other cost items such as financial cost and tax expenses does not have any cash effect for us in the mid-term. The financial costs relate primarily to the unwinding of the capitalized transaction cost and the downwinding of the discounted factor related to [ph] earn-outs (00:17:29). The tax expenses recognized this year will be set off against our previous tax yield.

Let's look into the next slide, please. So if you look at our balance sheet, the total assets amounted to €80.3 million as of September 30, 2019. The asset base consists mainly of intangible assets relating to our asset portfolio. Other assets relate to other receivables of €4 million and cash and cash equivalents amounting to €3.6 million as of September 30.

Our equity amounted to €64.5 million and the amounts committed to [ph] acquisition (00:18:08) of €8.8 million related to the earn-out. This was increased by €3.4 million during the quarter in relation to the acquisition of Casumba Media. After the total amounts committed from acquisition, €3.3 million related to the current portion of the earn-out, in line with management's best estimate.

Let's look into the next slide, please. We are happy to present the strong cash flow for the quarter. This is driven by a positive effect from trade receivables. We reached a great cash conversion of 1.2 times EBITDA from operational cash and we reached an operational cash flow of €3.2 million. The cash from operating activities amounted to €3.1 million, of which €2 million related to the acquisition Casumba Media.

The rest of the cash outflow related to earn-out payments during the quarter and small investments in domains. We have continued to purchase our own shares during the quarter and we acquired €167,000. During yesterday evening, the Board of Directors have communicated to close the purchase until further notice, given that we are in a phase where we see growth potential through acquisition under investments, creating further shareholder value. [ph] Paid interest for the quarter amounted to €79,000 (00:19:29) and relates the interest expenses related to [ph] revolving credit facility (00:19:35).

So let's jump into the next slide, and we'll try to recap where we are in 2019. If you take the recap, 2019 versus 2018, we can see that we deliver a strong NDC growth of 26.4%, [ph] market lower values (00:19:53) due to the effects from the Swedish regulation. We've also been able to deliver strong EPS and cash flow growth during the year and that has been driven by the improved financing post-IPO.

We have also followed our strategy where we continue to work towards a global footprint, and in line with that, we are willing to take further investments affecting our EBITDA. However, this will bring long-term shareholder value, maximizing our earnings per share over time.

So with that, I leave it over to you, Michael.

Michael Holmberg

Chief Executive Officer, Raketech Group Holding plc

Thank you, Andreas. So let's go to slide 20 and elaborate on our geographical expansion strategy. [ph] We see greatly simplifying (00:20:37), our focus is iGaming. We will be a global player and we're 100% digital. Why? Firstly, iGaming is where we come from and what we master. Secondly, only 11% of the global gaming revenue is online today. Sweden and some other markets, primarily where we are strong today, is around 50% or even higher. These are also the markets with the highest competition in the world where we are running a very profitable business.

The transition is now in the next 5 to 10 years. The global picture will be completely different. So our drive is to be in three continents. Each continent shall deliver at least 10% of our revenue and no markets are long-term be larger than 20% of our total business. Take this in combination with that, we are debt-free. We have loads of M&A experience. We have scaled the organization and an ambitious growth strategy to become a global player, and then you get a really interesting investment case.

Just to give a handful of markets that are a special interest to us, I can mention markets where we are today such as to continue to build in Japan and Germany, but also markets where regulation or marketing conditions are changing. For instance, Italy, Spain and North America, we believe we have services and products that can add value also here. So they deserve some special attention.

Let's move to the next slide. I wanted to take the opportunity to repeat our focus on being a sustainable affiliate company. We have put a lot of work into our view on responsibility, how we do business, and are working closely with our customers on compliance issues. We encourage responsible gambling. We were among the first in our industry to publish a responsibility statement, underlining both dos and don'ts, and we are one of the few with an internal whistleblower function.

I think this is all very important as a competitive advantage, which enable us to continue to be a desired partner for the operators who also increase their focus on responsible gaming continuously. If you don't play by the rules, the operators will choose someone else basically.

Next slide, please, last slide before we open up for questions. So what are the key takeaways from the presentation? As stated in the CEO Comments in the Q3 Report, I'm not satisfied with the performance in the quarter as such. One should expect more from Raketech. In 2020, we have a very ambitious agenda, and Q4 is a basic period for us. We're preparing for that.

I'd like to say that Sweden has leveled out and we think we have managed new conditions quite well. We see good underlying NDC growth, further strengthening the view of a more stable Swedish market. We continue to focus on geo expansion and for the first time 10% of revenue come from outside of the Nordics region. We have also made management changes to fully be able to grasp the global opportunities that we see.

2019 had no major sports events. Next year, we believe both Sweden will continue to stabilize and we also have the European Championships to look forward to. Thankfully Denmark, Finland and Sweden have already qualified and hopefully Norway will too. That is interesting and also drives activity and business.

We're not summarizing 2019 quite yet, but we are more than halfway into Q4. And looking back on the first three quarters that we report on now, it's been a year very much focusing on the newly regulated Swedish market, and gearing up to deliver on our global strategy. In 2020, you should expect more growth to come from the global market space. I am confident not only about next year, but also in the long-term that Raketech will be able to deliver on its very ambitious strategy.

Let's move to questions, please.

QUESTION AND ANSWER SECTION

Operator: Thank you. [Operator Instructions] Our first question comes from the line of Christian Hellman of Nordea. Please go ahead. Your line is open.

Christian Hellman

Analyst, Nordea Bank ABP

Q

Hi, guys. Thanks. Just a question starting at the top, on the revenue line. You did grow – obviously, year-over-year you were down, but you're growing sequentially now versus Q2. Can you speak a bit more about that on what are the drivers for you growing versus Q2? I guess there's some seasonality in that. But apart from seasonality, what is going on in the different markets where you are active? And also perhaps there's some acquisition effect, but again, please speak a bit more about this growth that you're seeing now versus Q2.

Michael Holmberg

Chief Executive Officer, Raketech Group Holding plc

A

Sure. Good morning, Christian. I'd like to just quickly look into what we were comparing with last year before we [ph] talk (00:26:18) on the quarter-on-quarter. So, as mentioned, 2018 was an exceptional year with somewhat of a perfect storm in our markets with everybody gearing up for the regulation and the vast amount of new casinos being launched last year with the kind of technology on Pay N Play casinos that overwhelmed the market, and that was main driver of the super strong Q3 last year.

Looking at the drivers for the quarter-on-quarter increase, we see that it's across the board, solid work on our products and they are ranking well, and they are delivering good quality and volume on NDCs as we see.

And then markets that are picking up are Germany then, where we have now explored more how to work on our TV Guide and the Paid Media strategy for the German market, which is something that we will continue to focus a lot on moving forward as well. And then, obviously, we have positive effect from the acquisition of Casumba Media, which is in line with our roadmap and pipeline and expectations for that acquisition.

I think that summarizes. We've had Google update during the quarter, which, for some of our products have been good, and for others, they've taken a hit, and that's the game we are in for those kind of products. But overall, we're very focused on those products also across the board [ph] at this day (00:28:01) on delivering good quality and beating the competition basically.

Christian Hellman

Analyst, Nordea Bank ABP

Q

Okay. And then, just on the comments that you have in the Outlook section in your Report. You mentioned that the activity and investment levels so far during this quarter have been on par with Q3. How should we view that, because I was sort of under the impression that Q4 also from a seasonal perspective is normally stronger than Q3? Is that not correct or how should we think about Q4?

Andreas Kovacs

Chief Financial Officer, Raketech Group Holding plc

A

Yes, Christian. So normally what we have guided on seasonality is modest in second half is strong in the first half, what normally used to be that December is a bit better normally than other two months during the last quarter. If we look – I mean, what – this is what we are guiding on what Michael also include in CEO comments, which you mentioned. I think what is important to bear with us that this whole strategy of being a global company and when we are now really accelerating to build our product portfolio outside of the Nordics, this is not something that comes overnight. This, together with rev share portion, which is a bit more volatile, it's a bit harder to sort of guide when the effect will come. So with that said, it's more or less – we can see that all in all, we are guiding on the similar levels that in Q3 and normally we are looking. What we are doing is, since we are looking in a longer perspective where it's really important for us to take the global footprint outside of the Nordics. We are really committed to invest in that, because we believe that in the long-term, it will give and contribute to a long-term shareholder value.

Christian Hellman

Analyst, Nordea Bank ABP

Q

Okay. I see. Thanks. And then, just my final question on North America, you are – well, yourself and one of the founders of the group is going to focus on North America. You're also terminating your buyback program, because you see some M&A opportunities and better organic opportunities as well to spend the capital on. But those two factors combined, what can we expect for Raketech in terms of North America going forward? Is it possible that you might do an acquisition in that region over the next, say, 12 months or so?

Andreas Kovacs

Chief Financial Officer, Raketech Group Holding plc

A

Let us take a look at where we are on the US. So historically we've guided on that we have a global product. That means also US traffic and we will be working with regulated operators in the US which means that we haven't capitalized on the market yet, although we have traffic and we are looking at building more products on the global level including then the US [ph] with yuan (00:31:25) focusing on the US from here on primarily. That means that there will be an agenda for Raketech in that market. At this point, we're holding a license, a CPA license in New Jersey. And we will come back more on details with how we are planning for this to play out, so to speak. But we

are giving – company is giving resources focused on the market. And that will also, that will include an M&A focus where we're looking at companies today and as we are in many markets. So we are active then both on the organic side and on the M&A side. And that's what should be expected going forward. How that will materialize? We will come back to and we don't talk about the revenue for the US at this time.

Christian Hellman

Analyst, Nordea Bank ABP

Q

Okay, great. Thanks. And then, just final question, the primary focus [indiscernible] (00:32:29) see outside of Europe, could that sort of be summarized to the US and Japan? I understand that you are also active in some other markets, but if we look at it further, high level, the markets that really could become big over the next three to five years, will that be Japan and US, outside of Europe, that is?

Andreas Kovacs

Chief Financial Officer, Raketech Group Holding plc

A

Yeah. Continued focus on Japan and potentially other markets in Asia as well. We have also an interest for some of the larger regulated markets in Europe. And we are as a company then also reviewing okay, how can we grow in grey market which is historically where we're coming from. Our home countries here in the Nordics have been so to some extent are grey. And we're doing well here. So these are products that we will be working on the global market space as well. But then, you have also the appetite for regulated markets and where you see when market, TV commercial and similar become limited or even a ban, that opens up for new opportunities as well. So this is something that we have an interest for as a company.

Then normally also what you see, it's in close dialogue with the operators, where do they want to grow something they are looking at to establish themselves in markets [ph] or and (00:33:57) payment solutions. If there is an infrastructure for payments, for the operators then they can do business. And here you can also note that there is a higher interest for LatAm South America at this point which is also something that we will be looking into or looking into and in combination then with a market that's Canada, highly relevant to many of our partners as well, so we [haven't focused on that market as well. That's a bit of a brief summary.

Christian Hellman

Analyst, Nordea Bank ABP

Q

Okay. Great. Thanks. That was it for me.

Andreas Kovacs

Chief Financial Officer, Raketech Group Holding plc

A

Thank you.

Operator: Thank you. Our next question comes from the line of Mathias Lundberg of SEB. Please go ahead. Your line is open.

Mathias Lundberg

Analyst, Skandinaviska Enskilda Banken AB

Q

Thank you. Good morning. I have two questions, one regarding the revenue outlook and one regarding costs. So first, could you just going back to the revenue outlook for Q4, when you say activity has been on the same level as in Q3 or on par with the Q3, do you mean the pace overall pace or that actual revenue KPIs are the same so far in Q4 as in Q3 than just some – if you could give some more color on that.

Andreas Kovacs

Chief Financial Officer, Raketech Group Holding plc

A

I mean, generally not – so, we are not really exactly giving out information how it looks like currently it's more or less an indication with – Michael puts in the CEO comment, it's more or less the – when we say activities, it's more or less the level [ph] that we see (00:35:34) in NDC traffic, so more or less on those type of KPIs.

Also, our rev share portion is growing – a lot that you are seeing, so it's also a bit harder to sort of guide in the beginning of the quarter where everything is going. So with that said, it's more referring to this underlying traffic KPIs which we are actually following on the day-to-day basis and we feel comfortable that you have healthy and sustainable business [ph] out there (00:36:04).

Mathias Lundberg

Analyst, Skandinaviska Enskilda Banken AB

Q

Okay. Thanks. And secondly, comparing the results versus my estimates, the main deviation was mainly on costs. Could you just briefly go through what the major cost drivers were in the line item direct costs and other operating expenses, because I've been trying to understand why, for example, the direct costs took quite a jump from Q2 to Q3?

Andreas Kovacs

Chief Financial Officer, Raketech Group Holding plc

A

Absolutely. So if you look at the direct cost line, they have the two outlines which is more or less that we are – with the TVmatsit acquisition, we have seen some great conversion and a great way to actually generate traffic to our product. We have primarily used it outside of the Nordics. We have actually had a quite strong paid media strategy. This paid media strategy is driven by lower margin. And together with that [ph] even over a period, it's (00:37:13) significant for us now, it's more or less the- it's like a BI project where we also see great synergies to getting to know how our customers are thinking. Still, that also the operators' business generally is driven by lower margins. So those are more or less the main explanations up there. If you look at the indirect costs, there you have more or less the investment in – what we're doing is that every – our portfolio, we have a global strategy for our key products. And within that – and you can think about everything from investing in different local consultants, investing in some kind of – could be some kind of articles which is not classified under direct cost. It could be a technological investment where you have to upload the sites quicker in – with different solutions in other markets.

So they have more or less the investments in our product portfolio for longer term. In our industry, it's a bit harder also to like capitalize all this investment. So we are quite conservative on that [ph] and taking (00:38:32) the cost directly in the P&L.

Mathias Lundberg

Analyst, Skandinaviska Enskilda Banken AB

Q

Great. Thanks. Really helpful. That was all for me. Thank you. Bye-bye.

Operator: Thank you. [Operator Instructions] Okay. There seems to be no further questions coming at this time, so I'll hand back to our speakers for the closing comments.

Michael Holmberg

Chief Executive Officer, Raketech Group Holding plc

Okay. Thank you, everybody for joining the presentation today. And so, again, looking back, we are, like I said, we were operating a very solid business with a strong cash flow. We are now fully gearing up for 2020 and on the road to become a global player for real. We look forward to talking to you again in connection with the Q4 report in February. Thank you very much.

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