

19-Feb-2020

# Raketech Group Holding plc (RAKE.SE)

Q4 2019 Earnings Call

### CORPORATE PARTICIPANTS

#### Oskar Mühlbach

President, Chief Executive & Operating Officer, Raketech Group Holding plc

#### Måns Svalborn

Chief Financial Officer, Raketech Group Holding plc

#### MANAGEMENT DISCUSSION SECTION

**Operator**: Ladies and gentlemen, welcome to the Raketech Q4 Report 2019. Today, I am pleased to present CEO, Oskar Mühlbach. For the first part of this call, all participants will be in listen-only mode and afterwards there'll be a question-and-answer session.

Oskar, please begin.

#### Oskar Mühlbach

President, Chief Executive & Operating Officer, Raketech Group Holding plc

Good morning, everyone and thank you, operator. Ladies and gentlemen very welcome to this presentation of Raketech's year-end report for 2019. My name is Oskar Mühlbach and since December I am the CEO of Raketech. In the room with me I also have our CFO, Måns Svalborn. Together we look forward to going through the Q4 numbers, but also to shed some lights on Raketech and how we see things going forward.

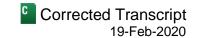
With that said, let's move on to the next slide and have a quick look at today's agenda. We will start today's session with a quick look at the financial and operational highlights of the quarter. Mans will than dig deeper into the financial details after which I will conclude with an update on our strategy before finally summarizing today's key takeaways. At the very end we will of course open the room for questions.

Let's move on to slide 5. Looking back at 2018, the year before last, it was an amazing year. The Swedish market was about to be regulated and the operators fought to make sure they entered the new landscape with as large market shares as possible. The market was furthermore fueled by a super strong pay-and-play casino trend and Q4 of 2018 was the absolute climax of this. This was also not surprisingly for the quarter when Raketech experienced its strongest results ever, and as you know, 2019 did however not continue on this positive trend for our industry, but has been said been a rather challenging year making the Q4 year-over-year comparison very tough.

With this said revenues for the fourth quarter of 2019 reached €5.8 million, which is slightly lower than the revenues in Q3, but 23.3% lower than the record quarter of Q4 2018. Despite a steady and high intake of new customers, this quarter started surprisingly slow in terms of revenue. Thanks though, to a slight market upswing and a series of targeted efforts, the guarter ended very strong.

Adjusted EBITDA reached €2 million equivalent to a 33.6% margin, which however is significantly lower than previous year, which is also why we communicated the preliminary results already in early January. Normalized even for non-recurring costs, EBITDA reached a 41.6% margin. And in just a few minutes, Måns will elaborate on this further. But before he does that and with the risk of stating the obvious, I wish to highlight that the reduced

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revenue compared to last year impacted our EBITDA significantly. This is simply because the marginal effect of higher revenue would have been large as our fixed cost base is quite stable. With regards to our revenue development so far in 2020, January revenue numbers amounted to €2 million supported by continuously high NDC intake.

Next slide please. The most extraordinary event during the quarter was perhaps the organizational overhaul which we managed – in which we managed to secure several key roles. Måns Svalborn achieving the role as CFO and Klas Winberg in the role of CMO. Furthermore, we secured former CFO Andreas Kovacs as Business Development Director with responsibility for Investor Relations and M&As, and finally tailored USA expansion role for the company founder, Johan Svensson. And on December 11, the board of directors decided to appoint me as the company CEO.

In addition to this, it's worth mentioning that the Raketech team delivered a tailored version of the TV sports guide in Italy based on our new and in-house developed technical platform. This is an important step on our journey to widen our footprint in markets outside of the Nordics. Furthermore, we managed to secure core competencies in systems related to our Danish community operations by centralizing all strategic functions. With that done, we have already started the process of building a new modern version of BetXpert to be rolled out during 2020.

In terms of milestones, I'm also thrilled to announce that we were able to record our first NDC from the United States. Currently we're carefully assessing several different USA entry options. And with that said, I'm confident that 2020 will be the year when USA shifts from a strategic target to the strategic market for Raketech.

Now over to Mans, who will walk you thorough

the financials in further detail.

#### Måns Svalborn

Chief Financial Officer, Raketech Group Holding plc

Thank you, Oskar. And let's starts on slide 8 please.

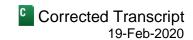
As Oskar pointed out Q4 started off quite slow and somewhat surprisingly so with a slight drop in the Swedish market. December however picked up and the quarter finished at €5.8 million more or less in line with Q3 and in line with what we communicated as preliminary revenue in early January of this year.

Number of NDCs continued to develop positively and we saw an increase of 5% from the previous quarter. Compared to Q4 last year, revenues decreased by 23.3%, organic growth was down 29%. Q4 of last year however it's a tough comparison and the record quarter as activity was particularly high in Sweden ahead of regulation.

Next slide please. As we have communicated before, there has been an ongoing shift from fixed fee towards revenue share throughout 2019 and effect on the operators being more inclined to go for more performance based pricing model. For Q4 however, there was a relative decline in revenue share of about 7% compared to Q3. It's not a significant change but it is a consequence of us being a bit more active in assessing the balance between revenue models. We follow the market development closely and will continue to assess what balance between revenue models is best in the short and long-term.

The relative revenue from our sports vertical is unchanged from Q3. Worth mentioning is the positive growth for our finance vertical. It constitutes a smaller part for us, but it has shown steady growth through 2019. A quick note

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on our revenues outside of the Nordics, there is a minor uptick from Q3, revenues are driven primarily from Japan through Casumba and is progressing according to expectations.

Next slide please. Net loss for the quarter amounted to €0.3 million, interest expense of €0.1 million related to our credit facility with Swedbank and it's the only cash affecting item below EBITDA. Apart from that the main item relates to depreciation, mainly driven by CasinoFeber and Casumba. As communicated in early January of this year, we have also written down €0.3 million in goodwill related to a previous acquisition.

Next slide please. Total assets amounted to €82 million at the end of 2019. Cash amounts to €4.2 million and borrowings related to our credit facility amounted to €3.4 million. We can comfortably conclude that despite recent acquisitions, we have a positive net cash position of €0.8 million. Amounts committed, up €10.7 million consist of expected earn-outs. We have increased the earn-out of casino for this quarter, [indiscernible] good performance.

Next slide please. This slide illustrates our cash flow rate Q4 versus Q3. Our operating cash flow of €1.8 million is somewhat lower by exceptional and non-recurring costs in the quarter. Net cash from investing activities are €1.1 million related primarily to earn-out payments during the quarter and cash flow from financing activities related to interest and lease payments. Despite the challenging quarter in terms of slightly lower revenues and more specifically a higher cost base from exceptional revenues and more specifically a higher cost sales from suction of a normal recurring cost. We can show a positive cash flow of €0.6 million for the quarter.

Next slide please. We are reporting quite a significantly lower EBITDA margin in Q4. The purpose of this slide is to illustrate, which costs are affecting the quarter specifically and which costs have more of a one-off characteristics, cancelling the case and normalized and detailed margin in Q4. Our reported EBITDA margin was 26.8% in Q4, exceptional cost related to the CEO severance pay and relocation of the Danish office and have affected the margin with 6.8 percentages. Furthermore, we took a provision uptake for trade receivables. This is highlighted in the slide as a second point. Monitoring of outstanding debt is a process we have improved and we can see that provision of trade receivable's will come down.

Lastly, there are a few costs that are affecting the isolated quarter of which the more significant one relates to an annual partnership agreement, which was really expense for the Q4. Adjusted with these costs, we are looking at a normalized EBITDA margin of 41.6%.

The normalized margin is below Q3 level, which is an effect of us increasing of paint media assets and onboarding of senior management and other qualified personnel. We are going through a period of transformation and we are expanding our product mix, which really in the short term affect our margin, and the margin will still a bit more volatile and maybe short-term indicatively be of 40-plus percent. In the long-term, however, we do not see a reason to adjust our long-term financial goals.

Next slide, please. 2019 has come to an end, and for the full year versus 2018, we can see that we deliver a strong indices growth of 9%, with however lower values due to the Swedish regulation. The adjusted EBITDA margin was 4% to 6% for the full year in line or slightly below our long-term target, affected, of course, by lower revenues but also higher cost base as an effect of us growing geographically and expanding our product mix.

Thank you and back to Oskar. Next slide, please.

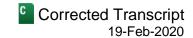
#### Oskar Mühlbach

President, Chief Executive & Operating Officer, Raketech Group Holding plc

Thank you for that, Mans.



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Ladies and gentlemen, please allow me a few minutes to elaborate on the current situation and also to have a quick look into the crystal ball. Next slide, please.

Gambling is one of the oldest industries in the history of man. It has been entertaining people in most cultures throughout history and into modern times. However, besides adding excitement to sports or as casual entertainment for many, it has also often been a stigmatized industry.

In most modern economies, the states have, as we are all aware, therefore around the local monopolies in order to ensure gambling and betting is done in a responsible way, but maybe even more so to control where the profits from the industry end up. With that said, it is interesting to conclude that the world of gambling is changing and the transformation is happening right before our eyes and at a very quick pace.

In the upcoming years, we therefore expect to witness fundamental changes within the industry, driven by a few but very powerful macro trends. Allow me to explain. One, global iGaming giants; a previously fragmented local landscape run by monopolies is slowly but safely being replaced by a global market dominated by multinational giants. Two, digital hyper growth; despite being perfectly suited for digital operations, betting in casino is still predominantly offline, with only approximately 13% being online. In digitally mature markets, like the Nordic countries, we've been specific, this number is roughly 60% already today. And with that said, we believe it's just a matter of time until the rest of the world is there as well. If this is 3, 5 or 10 years ahead, and if it happens gradually or all at once, well, one can only speculate.

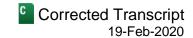
Three, increased complexity; re-regulations does not only open up for fair competition, but also for complexity in terms of compliance and marketing granularity as many channels suddenly becoming available. To some extent, this takes the edge of traditional affiliation on regulated markets at the same time as it opens up a world of opportunity within other marketing fields.

Next slide please. Fundamentally, the ongoing transformation is a very positive development with the consumer being the center of attention. In combination with a rapidly increasing competitive landscape, it is however also increasing the demands on everyone participating in the value chain. And the industry mature — and as the industry matures beyond the local monopolies allowing consumers to become more and more picky when it comes to sports betting coverage, product offering, odds competitiveness, user experience and more, the need to meet these demands naturally spills over to everyone delivering into the gambling industry such as Raketech. We therefore need to be on ourselves to ensure we continue to add value to our customers, the operators.

Considering our long experience from a relatively young digital industry, the fact that we are [indiscernible] (00:12:49) and that our business model is easy to scale, we believe we can provide a strong offering, helping both our customers as well as our entrepreneurs running our products with things they would otherwise not be able to benefit from. This spans from legal and compliance reassurance and advice, best practice methodology, granular data reporting and comparative numbers to training, targeted audits, and tech development.

The fact that we have a vast experience from M&As and at the same time are debt-free means that we furthermore have the possibility to level up, by for instance acquiring competencies or technologies that add even more value to our offering. But to be perfectly frank, there are despite our strong foundations still a few things we need to straighten out until we can leverage from this solid ground to its full extent. We refer to this transformation as going from tradition, affiliation, with a full service performance marketing partner.

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On the next slide I will go through our operational focus during this transformation. Next slide please. Translated into actions this simply means that we need to constantly evolve, improve, invest and expand in the value chain to be able to defend our position. If we do this successfully at the same time as we strengthened our global presence we will however not only be able to defend our position, but rather leverage on it and the current market trends.

We have therefore set up a few important operational areas for us to focus on. The first one, we need to make sure we roll out our flagship products globally. This means they need to be centrally managed and built on technically scalable platforms, which has been and will continue to be a strong focus for us. Two, to make sure we deliver quality, iGaming will remain our core focus. We however need to expand within this area to ensure we don't rely too heavily on traditional casino, but also other verticals such as sports, poker, e-sports or live Casino. This will also allow us to become if possible even more nerdy within iGaming marketing, which is exactly what our customers expect us to do.

Three, transparency and win-win partnerships is core for us, and with the current market development it becomes more and more evidence that strategic partnerships with large operators where we work just together is the melody of the future. Four, to we continue to add strategically important markets, concepts, technology or channels, we need to work closely and actively with M&A. And last but definitely not least, as we already have an in-house develop technical platform tailored for digital marketing within iGaming there is a lot of value for us to generate for our customers and partners in terms of helping out with compliance, on-site performance reviews and marketing funnel optimization.

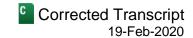
Next slide please. With all of this said we have put up a few operational goals that we will use as guidance to ensure we benefit from current micro trends, but also of course to ensure we limit our risk exposure. One operational goal is to have 45 flagship products, like the TV sports guides that we manage centrally that operates globally and with globally, I do not mean all the markets in the world of course, but on multiple markets of strategic importance to us and our customers.

In addition to being able to grow with our existing customers, it also means that we can benefit from scale both in terms of operational efficiency, but also user experience as local markets can benefit from what is being produced and developed on other markets. Another operational goal is to have a wider product offering which we have defined as four to six unique categories. This is essential to be able to leverage on the current macro trends and to be an even more important partner to our customers. The product category is for instance comparison site and consumer guides, communities, media products or paid media services. Organic sites with information about Casino offers and more will still counts for a large part of our business, especially on unregulated markets.

On regulated markets such as Sweden, USA and Denmark and more, it will however be kept, will be key to be able to offer a wider range and that is why this is strategically important as an operational goals for us. A bonus effect of doing this successfully is furthermore that we will low our risk as our exposure to single channels decrease, yet another operational goal is to ensure we widen our geographical spread to ensure we can meet our customers increased demand, but also believing that our risk of being largely affected by sudden changes in the legislative landscape or changes in technology are similar.

Finally, we believe it is important to have a wider coverage within all the iGaming verticals from Casino to sports to poker and more, not only to reduce the risk of sudden legislative changes or taxes, but also to meet our customers demand for larger food coverage marketing. With that said, we believe a healthy mix would be to not have more than 60% coming from any single vertical. If there is just under 70% of our revenues then from Casino, which indicates that we, over the upcoming years, need to increase our focus within other verticals slightly.

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With that said, please allow me to list a few of the today's key takeaways. Please jump to slide 21. Regarding our financials, I am not pleased with having to communicate margins under expectations for Q4. However, it gives me comfort being able to conclude that the quarter finished off on a strong note, supported by continued strong NDC intake, a development that, to some extent, also continues into 2020, with January revenue is coming in on €2million.

In Q4, we furthermore went through an organizational overhaul, in which we managed to secure key competences on several senior positions as well as me assuming the role of CEO. In addition to this, we also delivered a few but strategically important milestones, our first entity from the United States being one and the launch of the Tvsportiva.it in Italy being another. USA is a strategically important target market for us, which makes this milestone extra exciting. And Italy has the competitive marketing landscape, in which, we believe our local Tvsportiva.it would be a good fit. Furthermore, I'm happy to conclude that our Japanese acquisition Casumba Media is developing according to plan.

Regarding our way forward, we will, in order to further expand our offerings and our geographical footprint, intensify our work within the area of M&A. And last but not least, I talked earlier about the free market trends working together to transform our industry. To ensure we benefit from this transformation, we have begun our journey of becoming an even smarter, more data-driven and value-adding partner to our iGaming customers, something we refer to as transforming into an iGaming performance marketing partner.

And with those key takeaways, I wish to thank you all for your attention and leave room for questions. Next slide, please.

**Operator**: Thank you. Ladies and gentlemen, we're now ready to take your questions. [Operator Instructions] And as there are no questions, I'll hand it back to the speakers.

#### Oskar Mühlbach

President, Chief Executive & Operating Officer, Raketech Group Holding plc

All right. We have one question coming in over email, which was relative to our M&A and let me just read it out.

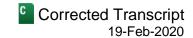
Can you please elaborate more on your M&A agenda going forward? What type of products and markets is of special interest for you?

Thank you. That question came from Christian Hellman. All right.

Yeah. Well, we, we look – we already have our presence in a few markets. We already have our presence in the few markets specifically, Canada and New Zealand. So, we're of course look more into those markets to see if there's anything more we can do there. But on a general note, we look for markets that have a high digital growth rate, with a proven track record of the high iGaming activity, that's where we do our – being the best.

And we're also being very tight dialogue with all our biggest customers on trying to, together with them, find a way forward into new markets. So we don't have a specific – unless you mean the USA which is a – is a specific focus for us. But in other terms, we have look together with our customers, the operators, in terms of which market to target and for clarification perhaps, then again I can also clarify that we're not actively looking for any new acquisitions within the Nordics.

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Yeah. And I don't think we have any other questions at this time. So, thank you everyone for joining the presentation today. We look forward to talking to you again in connection with the Q1 report in May. Thank you and have a great day.

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

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