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Raketech Group Holding Plc (RAKE.SE)

Q2 2022 Earnings Call

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MANAGEMENT DISCUSSION SECTION

Operator: Welcome to the Raketech Audiocast with Teleconference Q2 2022. For the first part of the call, all participants will be in listen-only mode, and afterwards there'll be a question-and-answer session. Today, I am pleased to present CEO, Oskar Mühlbach; and CFO, Måns Svalborn. Speakers, please begin.

Oskar Mühlbach

Chief Executive Officer, Raketech Group Holding Plc

Good morning to everyone and welcome to Raketech's Q2 report for the year of 2022. My name is Oskar Mühlbach, I'm the Group CEO. And with me, as always, is also Måns Svalborn, our Group CFO. Måns and I are going to take turns to go through the four bullets on the agenda, which you can see here on your left. Once we're done talking, we will, as always, also give you the opportunity to ask questions during the Q&A session at the very end. Once again, warm welcome, everyone. Let's get started.

And that is on slide three. Starting with financial highlights for the quarter, Q2 came in at €11.3 million, which is about 29% more than the same period last year. As expected, this is slightly lower than the first quarter simply because Q2 is the weakest period of the year from a seasonality perspective and that most markets and operators have reported somewhat challenging market conditions. Also, this year, we met extraordinary comparison numbers considering last year had both the European championships in football as well as the COVID outbreak fueling digital industries, including the online gambling industry.

To make the comparison even tougher, Finland is, as you might remember from our last presentation, lower this year due to new marketing restrictions, as well as Netherlands and Germany being out of reach for our network services. And finally, now that we have such a significant share of revenues coming from the US, we will have to get used to seeing lower numbers in Q2 compared to Q1 simply due to the US sports calendar.

Performance on our US assets is solid, but activity is lower correlating to – but activity is lower correlating to the major American leagues, which to be clear means that we are expecting revenues to pick up during the high season, which is strong September to February.

With all this in mind, I'm happy about our delivery in Q2. Things are going according to plan and we continuously note this product improvements having effect on rankings. Commercial optimization having effect on monetization and new initiatives such as the Affiliation Cloud generating incremental revenue streams.

As we've said before, we are continuing to invest into the US expansion and product development which in combination with a reasonably fixed cost base consequently lower the margin for the quarter to 35%. I want to point out that I'm comfortable with this margin as the investments are directed towards growth, but also as our fixed cost base is stable which means that we expect to see significant positive effects on our margin with increased revenue specifically from our American assets, which at this stage in time is relatively resource intense. Cleared from network revenues and Rapidi, which is a small operator brand we use for data referencing, our organic growth year-over-year was 3.4%.

Looking ahead, July started comfortably with €3.9 million in revenues, thanks to strong organic performance across the board relating to positive effects from Google's latest core update in May and June. And keeping in mind that the high season hasn't really started yet, this number does look promising. And to spice it up a bit extra, the interest for Affiliation Cloud is continuing to be high.

Next slide. Slide 4, please. And now to some operational highlights and key numbers from the quarter compared to last year, our sports share of total increased with 163%. This is relating to last year's acquisitions. Naturally, however, the sports share was lower than in Q1 simply due to the US sports seasonality, as I mentioned on the previous slide.

On the previous slide, I also highlighted that new regulations in Germany and the Netherlands affected our network revenues negatively. With this slide, I want to emphasize that we do not anticipate any more negative effects from these events going forward. Besides, it, of course, making the annual comparison a bit tougher also during Q3 and Q4 for the network specifically. US revenues totaled 12% of group total which considering the lack of major sport events is okay. We expect the US sports season, which is between September and February, to significantly increase this number in the remaining second half of the year.

So, I think Finland and the network aside, we experienced solid results across the board and saw healthy KPIs for most regions, initiatives, and assets. Sweden stood out from a positive perspective with strong performance which considering tough comparisons is giving us confidence for H2.

Furthermore, I'm proud to announce that we have prolonged our RCF yet another year on terms that in this industry should be considered as very healthy. And last but absolutely not least, we have assigned resources into the operational handover of one of our oldest players and largest assets, Casinofeber, from the founders to the talented central operations team. The handover is planned for February of next year, but as this is an important asset for us, we are, of course, already now working closely together with the original team to ensure a smooth transition. Not only is this exciting from a product development perspective, but of course also from a cash flow perspective. We are expecting to see significant uplift in cash flow from – in cash flow generation from this asset with around €4 million or more per year as of February next year.

And let's move to next slide, and that's slide 5. So, you now heard me talk about all the extraordinary factors that impacted the Q2 comparison, such as the European Championships in football and COVID boosting Q2 numbers of 2021, and strong seasonality effects in the US and the German, Dutch and Finnish regulations complicating things.

But to give you a bit more balanced view and to understand what things that we expect to affect us in the second half of the year, I've therefore created a slide on this topic specifically, which is this one. And as you can see, I've listed three things. We expect to have an impact on our performance over the next six months, external factors such as inflation, potentially increased unemployment rates, recession or other macro factors are, of course, taken out of this equation. If Q2 was a weak sports period than Q3, but potentially even more so Q4 should be the absolute contrast to this. We have the American football season starting in September, which typically is the most important sport for us in the US. Also, with the FIFA World Cup being held in November this year, we expect to see increased activity on sports-related assets – most sports-related assets, I should say, but maybe more so outside of the US where the football is round like a sphere.

The second factor, the box in the middle, is relating to organic growth. And here, I want to take the opportunity to clarify how we define organic growth. Once an acquisition has been with us for 12 months, we start counting potential growth as organic. We have affiliate peers counting organic growth as growth even on acquired assets during their first 12 months as well, and I've therefore received quite a few questions about this, which is why I want to clarify that we use the standard definition and nothing else.

And on that note, as we did acquisitions in the second half of the year, and that we are seeing growth in all of these acquisitions, I'm looking forward to including their future success into the organic growth calculations. Furthermore, the positive effects from the latest Google core update positions us in a very – positions us very well for the casino high season, which starts in September, October and continues throughout November and December.

The third box to your very right states increased EBITDA. And thanks to our stable cost base, higher revenues during Q3 and Q4 should, therefore, also naturally lead to higher margins during this time.

With these three factors in mind, I want to reiterate our full year guidance on revenues within €50 million to €55 million, and EBITDA margins between 40% and 44%. At this point, this is our best estimate, but I also want to flag that we're not going to hold back growth within lower margin segments such as the Affiliation Cloud if we see potential for that.

Before I hand over to Måns, I also want to talk just briefly about why I think that Raketech's current structure and business model is a bit extra resilient against turbulence but also a bit extra well-positioned for long-term growth, and that is on slide 6, so please go there.

So, on this slide, you can see that I've included Raketech's current main business areas. For those of you who have followed us for a while, I want to clarify that the media category here is clustered together within affiliation marketing, and that network is clustered together with revenues from Affiliation Cloud in the middle bucket sub-affiliation. These three different buckets represent three different dimensions of what together make up Raketech today. A few years back, we were an affiliation-only company, and the majority of our revenues were coming from the Nordics with Sweden and a handful of assets in particular.

Today, we're a modern affiliation with performance marketing company offering a wide range of services and products to operators, other affiliates and end consumers. We still have a solid footprint in the Nordics, but more than half of our revenue are outstanding from multiple exciting growth markets around the world. To mention a few, it's India, Japan, South America, Europe, and of course, also these all important US market. And to be concrete, this means that we are more resilient to Southern macroeconomic changes and that we have more growth initiatives going than we'd ever had before.

And as you might recall, to get to this point has been a strategic focus for us over the past few years. I'm very happy to see that it is having the desired effects in terms of continued growth and stability in an otherwise volatile work.

With that said, there are also a few other aspects of this that are potentially more – also important to bear in mind for you as an investor when looking at Raketech and our performance over time. If we start with a box on your left, affiliation marketing, this is our bread and butter. In this bucket, we have comparison websites, forums, review sites, media assets. These assets are either acquired along the way and fine-tuned by Raketech or built from scratch in-house. Nevertheless, every single asset requires either a few years' worth of investments and work to be successful or they need to be acquired along the way.

Once they're past their initial growth phase, they're typically around with extremely high margins at up to 80%. Over time, we aim to grow our assets within this bucket in line with or better than the digital gambling growth on the markets where they are present. And as the digital world of online gambling, so far only represents 15% to 20% of the world's total gambling, we believe that there are many years of growth ahead of us within this segment.

In the middle bucket, we have sub-affiliation. This is, simply put, when we make use of, on the one hand, our advanced technical infrastructure and data analytics. And on the other hand, our since long established commercial relationships with all of the global gaming operators.

We package this as a managed SaaS solution and allows more affiliates access to unique tools and simple administration interfaces and operators access to widespread of quality assured smaller affiliates with just one click.

This segment includes our so-called network business as well as our recently launched Affiliation Cloud with most operators active on multiple markets at the same time with most operators active on multiple markets at the same time with the large number of affiliates combined with an ever-increasing legal complexity, the demand is large and it is increasing.

Margin within the segment is naturally lower than in the first one, but it does not require us to make any long-term investments into assets, and it allows us to quickly add to new markets without making acquisitions necessarily.

On the right-hand side, we have what we call betting tips and advice, which is a segment we only provide in the US at the moment. We will, of course, eventually look at the opportunity to expand this outside of the US. But for now, the opportunity within the US is simply too big for us to risk losing focus.

Consumers pay to get advice and tailored data insights about specific games or leagues, and they pay via subscription, and in some cases also through win-share, which simply put is bonus being paid to us when our information and advice has led to successfully-placed winning bet.

Activity within this segment is very much relating to the major leagues with September to February being the most important period. Operational costs are reasonably stable, consequently leading to very low-margin string losses and very high margins during the high season, which is what we saw during Q2.

With all these segments – within all of these segments, we, of course, have much more granular services from an overall perspective. This is how our revenues are generated today and also the reason why we are so stable and resilient nowadays. But also in my mind, a cornerstone in building a company that is long-term sustainable, and wins not only today, but also tomorrow and the day after tomorrow.

And with that said, over to Måns and the Q2 financials in details.

Måns Svalborn

Chief Financial Officer, Raketech Group Holding Plc

Thank you, Oskar. And let's start on slide 8, please. As expected, we saw revenues decrease sequentially from Q1, which essentially is an effect of the US fourth season entering into the low season of the year, and additionally somewhat lower activity within network sales.

Our US focused betting tips and subscription services accounted for 9% of total revenue in Q2 compared to 17% in Q1, which is more or less in-line with our expectation. And as I mentioned and expected seasonality effect. Performance from our network sales with somewhat lower activity. However, in-line with the development of the markets they operate in, [ph] it presented (15:18) 17% of total revenues in Q2 compared to 20% in Q1.

Worth pointing out is that last year was exceptionally strong in this segment as both the German and Dutch markets were still open for business ahead of re-regulation within both of these markets. Our revenues from affiliation marketing, which represents our largest revenue segment, are essentially in line with Q1 of this year, which is positive considering Q2, marks a slower season.

We see strong performance in Sweden and Norway positively affected by the recent Google update, as well as continuously solid performance from Casumba and our recent acquisition, Infinileads, targeting primarily the south of Europe. So in summary, expected seasonality effects, solid performance from our core business of affiliation marketing.

Next slide, please. This slide illustrates our revenue diversification split on regions and verticals. As highlighted on the previous slide, Sweden and Norway are developing positively both Q versus Q and the year-over-year, which means that Nordic revenues are in line with comparatives despite the development for the Finnish market and seasonality effect, and despite tough comparison from last year with the UEFA Euro 2020. US, as I mentioned, is lower as an effect of seasonality Q versus Q. And as the last point on our region is that the decrease in Rest of Europe from Q2 of last year relates as I highlighted earlier, the shift of efforts within network sales from the German and Dutch markets.

With regards to the sports vertical, we did expect a lower share of revenues, again, an effect of the US fourth season. We did, however, see as well a shift from casino revenues to sport revenue in network sales, which led to the share of sports revenue still above [indiscernible] (17:30) of total revenues. Network sales is, however, as we mentioned before, slightly more opportunistic in its approach which could mean this could shift slightly back and forth between the vertical as we move along.

Next slide, please. NDC development was reasonably stable looking those as Q versus Q and year-over-year. Affiliation marketing has contributed with a positive NDC count, but this was largely offset by the lower activity within network sales.

Next slide, please. And this slide illustrates our EBITDA and EBITDA margin in Q1 compared to Q2 of this year. The decrease, as you can see in both EBITDA for absolute numbers and as a margin, relates essentially to the expected seasonality effect of lower US sport revenues. And this business line operates with a higher degree of fixed costs, which are naturally lower demand in the group during the off season. We do, however, as Oskar pointed out, expect to have – this to have the opposite effect during H2 when the football – the US football season takes off.

Network revenues have decreased as well, as we've pointed out, with some effect on our EBITDA. But it has a smaller effect on our margin as it ranked to the higher degree of variable direct cost, which is visible through being in general lower drive costs. Other costs, such as personal expenses and other operating costs are essentially stable, and we expect this to remain stable during the following quarters.

So to sum up, seasonality effects primarily for the US focused sport revenue are affecting the EBITDA margin, which we expect to improve in H2.

Next slide, please. This slide is illustrating our EBITDA for net profit bridge, the largest items below EBITDA or depreciation and amortization on our intangible assets and other finance costs, which represent the discounted value over outstanding [ph] are not (19:43) liabilities. Important to note is that these items are non-cash affecting items, which is why cash conversion remains close to 100%, which we can see on the next slide.

Next slide, please. And my last slide is our cash flow bridge Q1 to Q2 of this year. As I mentioned on my previous slide, we continue to see high operational cash flow with high cash conversion of 98%. Earnout payments amounted to €2.8 million. Of this, €0.9 million relates to Casinofeber, which is an earnout that comes from end towards February next year. And from that point, we expect net cash to improve significantly. And as a last point, we have capitalized some costs relating to development of Affiliation Cloud of about €0.2 million. This product will obviously need continuous development, but we're not expecting any major cost deviations from current levels.

Thank you. And back to Oskar, and slide 14, please.

Oskar Mühlbach

Chief Executive Officer, Raketech Group Holding Plc

Thank you, Måns. That was the last slide for today. But before we move on to Q&A, let me just wrap things up first. And let's start with the financials. Q2 revenues totaled €11.3 million equivalent to an annual growth of 29%. Despite low season and tough comparison numbers, we saw stable performance from core assets. However, due to changed regulations in Finland, Germany and the Netherlands, we declined organically with 4% year-over-year. Adjusted EBITDA came in at €4 million, which equals 16.6% – which equals to 16.6% growth year-over-year, corresponding to a margin of 35%.

Other significant events and milestones worth highlighting is that our US revenues came in at 12% of group total. And as Q2 is the lowest season of the year due to the US sports calendar, it is expected for this year to significantly increase during the upcoming high season, which is September to February. Sports as a segment represented 31% of group total. And non-Nordic revenues were 53%, slightly down from Q1 as a consequence of strong performance from our core assets in the Nordics.

Looking ahead, July revenues amounted to €3.9 million, which is solid considering the high season hasn't started yet. Looking at the rest of the second half of the year, we do expect the market characteristics to fundamentally change as the American football season starts.

Also worth mentioning is that this period is typically also where we see high level of activity within the casino segment. And this year we also expect increased general sports activity thanks to FIFA World Cup in November. In other words, an exciting half year ahead of us.

And that was it. Let's skip to the next slide if we have any questions.

QUESTION AND ANSWER SECTION

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

Marlon Värnik Q
Analyst, Nordea Bank ABP

Yeah. Good morning, Oskar and Måns. Can you hear me well?

Oskar Mühlbach A
Chief Executive Officer, Raketech Group Holding Plc

Good morning, Marlon. Loud and clear.

Marlon Värnik Q
Analyst, Nordea Bank ABP

Perfect. So, just firstly, I mean, I understand that the month of July is a low activity month, especially for sports. But how should we view the July number here of €3.9 million in relation to the rest of the quarter? At what pace do you expect the activity to pick up here throughout the Q3? Thank you.

Oskar Mühlbach A
Chief Executive Officer, Raketech Group Holding Plc

All right. I can take that one, Måns. It is a bit hard to give projections within the quarter specifically as we are half through. But generally, historically, Q3 has had an overweight of activity at the later part of the period, if you look at it historically.

Marlon Värnik Q
Analyst, Nordea Bank ABP

All right. And just a question here on Casinofeber. I mean, you are shifting operations from the original team to the central Raketech team, right? So – and has this had any impact on the cost base [indiscernible] (24:26) in Q2 or should we expect some impact in Q3 and Q4? If you can give some more flavor here on the effects of the cost base from the shift.

Oskar Mühlbach A
Chief Executive Officer, Raketech Group Holding Plc

Yes. Måns, should I take that as well? Potentially, you can fill in if you have any more details...

Måns Svalborn A
Chief Financial Officer, Raketech Group Holding Plc

Yeah.

Oskar Mühlbach
Chief Executive Officer, Raketech Group Holding Plc

A

...but I don't think you should – we're already taking somewhat cost through that, but it's relating to staff costs, which I wouldn't say have any material impact. Of course, it has a marginal impact on our margin going forward, but it's not significant. So, it's not worth mentioning in that context. I think what we're preparing is that we put – once we take the asset over in February, we'll, of course, host all of the costs and borrow all of those internally. So, that would potentially can change how we operate going forward. But still, we expect a significant increase to cash flow from that asset being generated as of February. But up until then, I don't think you should expect any material extra costs even though we are taking some. But that's relating primarily to a few – to the team working with it from our side.

Marlon Värnik
Analyst, Nordea Bank ABP

Q

Yeah. All right. And just lastly here on Finland, I mean – I assume that operators are cutting back on investments on the Finnish market given the regulatory headwinds we're seeing here in 2022. Should we expect the Finnish market to drop further here from Q2 levels due to this or what's the outlook, from your point of view, for the Finnish market here for the rest of 2022?

Oskar Mühlbach
Chief Executive Officer, Raketech Group Holding Plc

A

Yeah. That's an interesting one, actually, because the reason why the major operators are careful now when the marketing legislation has been tightened is that they are, to some extent, afraid of being subject to payment blocks as of next year, which basically means that they still have an appetite for that market because they are working very carefully.

So I would say that the level where we are at, at the moment is a stable one. We're actually seeing small positive signs of the larger ones returning to the Finnish market somewhat more careful than before, of course. But I wouldn't say that we – I wouldn't say that there are only made – we don't see at this point that there's any signs of any major disruptions on that market within the short term.

Marlon Värnik
Analyst, Nordea Bank ABP

Q

All right. Perfect. That's all from us. Thank you, Oskar; and thank you, Måns.

Oskar Mühlbach
Chief Executive Officer, Raketech Group Holding Plc

A

Thank you.

Operator: Thank you. And we currently have one further question in the queue. [Operator Instructions] And next question comes from the line of Rikard Engberg of Erik Penser Bank. Please go ahead. Your line is open.

Rikard Engberg
Analyst, Erik Penser Bank AB

Q

Morning, guys.

Oskar Mühlbach
Chief Executive Officer, Raketech Group Holding Plc A

Good morning.

Måns Svalborn
Chief Financial Officer, Raketech Group Holding Plc A

Good morning, Rikard.

Rikard Engberg
Analyst, Erik Penser Bank AB Q

So my question is regarding the development of Affiliation Cloud, which you launched in the quarter. Are you satisfied with the launch and what can we see going forward?

Oskar Mühlbach
Chief Executive Officer, Raketech Group Holding Plc A

Good morning again. Yes, we are – short answer, yes, we're very happy with the launch. We were – I think we would still have to stick with what we said last time. I think it has potential of turning over €10 million within two years. And it's quite an aggressive sort of ambition, but I think it's highly realistic looking at where the global market is trending. So, we've seen a lot of interest for it, but I want to point out that we're still in the beta phase, so we still have some development until we can really push the button and market it on a global basis. But we're very – we're positively surprised about how it's been received by the market so far.

Rikard Engberg
Analyst, Erik Penser Bank AB Q

Good. And I have one more question, and that is regarding the EBITDA and the guidance that you'd given for the full year. How do you see that the margin will increase? Is it due to higher gross margin or is it mainly due to driven by growth that you will see that margin will reach the guidance levels?

Måns Svalborn
Chief Financial Officer, Raketech Group Holding Plc A

Yes. So, I think I mentioned it in my slide. I think it's – or we projected to have a similar sort of opposite effect as it has from Q1 to Q2. So, the gross margin will likely be similar to what we have in Q1 and Q2, and then on top of that we'll probably have growth in revenues. Primarily, as Oskar pointed out, the US sports activity picking up, [ph] Casinofeber ticketing (29:26) picking up, and the FIFA – the World Cup football cup coming up in November and December. I think the gross margin will remain quite stable than the added growth to drive EBITDA.

Rikard Engberg
Analyst, Erik Penser Bank AB Q

Okay. Good. That was all for me. Thank you, guys.

Måns Svalborn
Chief Financial Officer, Raketech Group Holding Plc A

Thank you.

Oskar Mühlbach
Chief Executive Officer, Raketech Group Holding Plc

A

Thank you very much.

Operator: Thank you. We've had a follow-up come through from Marlon Värnik of Nordea Markets. Please go ahead. Your line is open.

Marlon Värnik
Analyst, Nordea Bank ABP

Q

Yeah. Hi, again. Just a follow-up question here on the organic growth. I mean, it was minus 4% here for Q2. I understand that the Finnish market dampened that number quite a bit. Can you quantify or give some more flavor on the effect of the Finnish market or what organic growth would have been ex-Finnish market, for example? Thank you.

Måns Svalborn
Chief Financial Officer, Raketech Group Holding Plc

A

Do you want me to take this, Oskar?

Oskar Mühlbach
Chief Executive Officer, Raketech Group Holding Plc

A

I don't know if I should take this, Måns. Should I go ahead? We haven't ever historically disclosed single markets in the Nordics, so I don't think it's wise for me to quantify it exactly. But if you discount the effects from network in the Netherlands and Germany being out of bounds for us, it's out of reach for us this year in combination with Finland, we are seeing an organic growth of 3.4%. So, not sure if that helps to do the math backwards. But that would potentially help you do that.

Måns Svalborn
Chief Financial Officer, Raketech Group Holding Plc

A

And I think another way of putting it as well is we're looking at Nordics specifically and we still see positive development in Sweden, which is our largest Nordics market in the Nordics.

Marlon Värnik
Analyst, Nordea Bank ABP

Q

Yeah. All right. Fair enough. Thank you.

Oskar Mühlbach
Chief Executive Officer, Raketech Group Holding Plc

A

Thank you.

Operator: Thank you. And as we currently have no further questions at this time, I'll hand the floor back to our speakers.

Oskar Mühlbach
Chief Executive Officer, Raketech Group Holding Plc

All right. Excellent. Thank you very much. And thank you everyone for joining the presentation today, and we look forward to talking to you again in connection with the Q3 report in November.