Raw Transcript

10-Nov-2022

Raketech Group Holding Plc (RAKE.SE)

Q3 2022 Earnings Call

CORPORATE PARTICIPANTS

Oskar Mühlbach
Chief Executive Officer, Raketech Group Holding Plc

Måns Svalborn
Chief Financial Officer, Raketech Group Holding Plc

Oscar Karlsten
Chief Operating Officer, Raketech Group Holding Plc

MANAGEMENT DISCUSSION SECTION

Operator: Welcome to the Raketech Q3 2022 Report Presentation. For the first part of the call, the participants will be in listen-only mode. [Operator Instructions] .

Now I will hand the conference over to CEO, Oskar Mühlbach; and CFO, Måns Svalborn. Please go ahead.

Oskar Mühlbach

Chief Executive Officer, Raketech Group Holding Plc

Good morning and welcome to Raketech's Q3 report for 2022. My name is Oskar Mühlbach, I'm the Group CEO. And with me, as always, is also Måns Svalborn, our Group CFO. As you can see here on your left, we have three topics on the agenda today before we open up for questions. Once again, a warm welcome and let's get started and that's on the next slide.

And on this slide we have as always selected financial highlights. Starting off, however, with some high-level reflections, we noticed that activity, just as expected picked up during the quarter and that the positive momentum from Q2 was carried over nicely. This resulted in stronger KPIs and financial metrics across the board, spanning from revenue margin or organic growth to profitability.

Starting off with perhaps the most important one of these, the blue number in the top left box revenues amounted to €13 million, which is 35% more than last year and 15% more than the previous quarter. Considering the positive momentum we had coming out of Q2 and thanks to the seasonality, we projected growth quarter-over-quarter and I'm therefore happy to be able to conclude that we did manage to deliver on these projections. The year-over-year increase is driven primarily by two factors acquisitions and solid organic growth from primarily sub affiliation as well as affiliation in rest of the world. Organic growth was 14.2%, which is the blue number highlighted in the bottom left box. And considering last year's comparison, contains full Finland and Dutch numbers as well as a generally COVID-boosted digital activity last year, I'm very pleased with this 14.2% organic growth. In our last presentation, we projected our EBITDA margin to increase during Q3, which it also did quarter-over-quarter EBITDA margin grew with 27% totaling €4.8 million. This is the number in the top right box. Our EPS grew to €0.05 per share, which is 67% higher than last quarter and 6.2% higher than last year.

Looking ahead, we have had a good start to Q4 with October revenues amounting to €5 million, which is a new record for us in a single month. We still see strong organic performance on core affiliation assets and we have more clients lining up to be onboarded onto the affiliation cloud than we currently have capacity to handle, which is why we've also decided to increase investments into this further to maximize the opportunity as early as we can. And in general, Q4 looks exciting with the FIFA World Cup coming up as well as the casino peak season.

You can move on to the next slide. Here are operational highlights and this slide is highlighting our three main business areas, affiliation marketing on your left is our bread and butter. This area is typically made up from various consumer Facing assets such as Casinofeber, Slotjava and TV Sports Guide. We attract users by them persons, quality ratings or aggregated sports data. And if you click on any of our promotional links and let you convert to a casino sportsbook customer, the operators pay us the finder's fee. This business area is very high in margin and the very core of what we do.

In Q3, we grew affiliation markets by 18% year over year, thanks to continuously strong organic momentum with organic momentum. I'm referring to the fact that we have seen good results on search engine rankings lately, which is key for us and the segment. We are growing faster on fast growing markets. Actually slower, more mature markets, meaning growth in the rest of the world was leading our way during Q3. During the quarter, we handed over the operational responsibility for Slotjava from the original Slotjava team, which we acquired last year to our central team. And on the same topic, we have a full dream team in place to take over the casino asset once this earn out ends in February next year. If we quickly also look at the yellow section in the middle representing our sub affiliation business area, one can see that during Q3 this was our fastest growing area. Sub affiliation is simply put when we help other affiliates and operators to maximize their businesses by allowing them to use our proprietary infrastructure. They do this either through affiliation cloud or through what we call Raketech network. The cloud is used primarily by organic affiliates, much like our own products, and the network is used primarily for specific campaigns with traffic often coming from paid or social media margins within this area, it's naturally lower than affiliation marketing, but the risk is also significantly lower as we don't invest into products or assets. As from now, we will not report.

the Affiliation Cloud and network separately every quarter due to competitive reasons. However, I can tell you that the Affiliation Cloud by the end of Q3 had 20 clients and more in the queue to be connected. Also SBC awarded us with the Product Innovation of the Year award for 2022, which is telling me we might be onto something here.

On your far right in the blue section you can see our third business area, which is betting tips and advice. Currently, this is something we only offer in the US and something we did not have before last year's US acquisitions. In a nutshell, we offer predictions on games to the US audience and we charge subscription fees, one-offs and we get bonus when predictions are right, which we call win-share. This business area is very much driven by seasonality, but due to the win-share component also a bit volatile. So far this year we have seen great progress in terms of organic visibility, traffic numbers, user engagement, et cetera. But unfortunately the win-share results are somewhat okay, but not more than that.

As I mentioned on the previous slide, we do have most of the sports season ahead of us. So I have high hopes and expectations on this area for Q4 and Q1 of next year and long-term we want to monetize further on these great assets by adding more affiliation revenues to reduce volatility and increase growth. Next slide, please.

So before we move on, I wanted to also quickly revisit what I presented last time, which was this slide with the expected growth drivers for H2, which is Q3 and Q4 of this year. This – the slide is essentially unchanged since last time, however, I've added green tick boxes to showcase the fact that so far our expectations on the second half of the year seem to be reasonably right. We did and still do expect sports to add to our growth for this specific time, considering the US sports season is peaking. And in addition, we have the FIFA World Cup in Qatar. We have already seen activity pick up and the interest from operators. Maximizing the opportunity is comforting. We do, however, still have most of the sports boost ahead of us, which is also exciting.

Secondly, our currently strong organic momentum and the affiliation cloud as well as last year's acquisitions being with us for 12 months now, we anticipate organic growth to continue to be strong. I do however want to point out that and this is the blue text in the bottom of the middle box that we are experiencing somewhat capacity constraints, meaning that we currently cannot onboard as many partners as we would have hoped simply due to lack of resources and minor technical development still waiting to be finalized.

We're doing everything we can to speed this up, of course, and working intensively to accelerate this opportunity as quickly as possible. And finally, with a quiet, fixed cost base, we should naturally also see an increase in EBITDA during Q4, just like we did in Q3. But depending on which business area and which market that grows the most during Q4, it is difficult to assess exactly how much this effect will be.

And we can move to the next slide. Looking even further than this year here's a slide on where I see that our best chances of creating value are, as you might remember from a few years back, we had something similar, but that time – but that time expressed as operational strategic goals. In short, they focused on ensuring Raketech established a solid global footprint, reduced in short they focused on ensuring Raketech established a solid flowable footprint reduced its dependency on the Nordic markets, widen its product portfolio and better balance the mix between sports and casino related revenues. And for those who have followed us you might also recall that we managed to deliver all of these goals even quicker than we first anticipated. With that said, I believe we have a solid strategic position and additionally our finances are in order. Our net debt-to-EBITDA ratio is among the, if not the lowest in our industry, and our operational cash flow is expected to significantly increase soon thanks to the casino favorite earnout finally coming to an end.

With that said, it's time for us to explain how we think we can best capitalize on this solid financial and strategic position. In short, we have three areas where we believe we could make an impact. The first one to your left is our flagship assets. And with flagship, I mean, products that are of significant size have solid and high margins and a good strategic fit.

The affiliation industry has been moving more and more and will be moving even more towards high quality end user products. With our position, our talent in the organization and plus 10 years of industry experience, we believe that we have what it takes to increase the distance to competition even further by concentrating efforts towards our largest products more than we have done historically.

Concretely, this means that we will be dedicating more and more highly skilled resources towards these products. We will also use the central team to focus more on developing new and unique features and functions, conquer new markets, and potentially market these products. If it fits in pay channels, the second area in which I project growth to come from in the future is of course affiliation in the US. The market in itself is projected to grow with somewhat 25% year-over-year in the coming years. And we have great products that are right in the center of the target audience for the US iGaming operators as our products today target US tipsters. We have had this product in the group less than a year and I've therefore not yet seen the full potential of what we potentially could generate in terms of affiliation revenues. But I'm confident we'll be able to deliver this within the coming years.

Therefore, we are planning to increase resources and investments here and also create a tighter collaboration between our Central Affiliation Team and the local US tipster team. For reference, our tipster assets in the US alone had 2 million unique users in the month of September. And finally, to your very right in this slide, we have affiliation cloud. This is the unique SaaS solution that helps operators and affiliates maximize their respective business by reducing admin, providing valuable insights and great commercials. The interest so far has been great and I'm looking forward to accelerating growth within this area already next year and the years to come.

With those words over to Måns and the Q4, the sorry, the Q3 financials in detail.

Måns Svalborn

Chief Financial Officer, Raketech Group Holding Plc

Yes. Thank you, Oskar. As expected we saw revenues increase sequentially in Q3 and we are with €13 million at an all-time high for the group. Starting with affiliation marketing revenues are up with 6% from Q2, which is an expected development through seasonality, but also performance related as a number of assets saw positive development following the recent Google update. Sweden is standing out positively. CasinoFeber continues to grow -outgrow the market and some of our smaller assets in LatAm are seeing positive results. Sub-affiliation has increased significantly in Q3.

there is an increased activity within network sales, but we've also seen added revenues through the launch of Affiliation Cloud. Our US focused betting tips and subscription services accounted for 10% of total revenues in Q3. And as also pointed out, we are seeing activity pick up towards the latter half of September with the start of MSL and there is good momentum in both traffic and leads. But as we mentioned, the start of the system is so far somewhat below expectation with regards to win-share based on predictions.

The table on the right-hand side of the slide provides a brief product overview. Affiliation marketing is by far our most profitable product. We expect this side of the business to maintain high margins. So between 60% to 80% of on scale as performance improved. Sub-affiliation with a significant growth in Q3 and with direct costs correlate directly with revenues the margin is expected to remain stable between 10% and 20%. And lastly betting tips and subscription is as we pointed out throughout the year very dependent and correlated with the US sports season this area has a mix of direct and indirect costs and our as such the EBITDA margin will fluctuate in line with activity. So during the off-season, the margin can go as low as around 5% and then peak at around 40% during high season, however, with an expected DLA average of about 30%. This mix of products and the fact that the share of revenues vary between the periods leads to more volatility between the quarters with regards to our EBITDA margin, the mix of products if however, something we believe is strategically important And leads to a better risk profile for the group as well as a better positioning for the group to ensure further growth. And we can go to the next one. The slide illustrates our revenue diversification split on regions; Nordics took a jump in Q3, driven to some extent by Sweden through improved performance from affiliates and marketing assets. As well as seasonality effects. Nordics were also impacted by added revenues through affiliation cloud, which has so far been concentrated primarily for the Nordics. Finland, as we highlighted us, decreasing in Q1, has remained stable throughout the quarter compared to Q2. Rest of the world grew with 13% from Q2 through December, increased activity within some affiliation and also some positive growth from LatAm, which is still small but potentially. And here with, as we mentioned, momentum started to see an increase in activity in the end of September. But again, that's somewhat short of expectation with regards to ensure, based on predictions for prescriptions. And the next one. With regards for vertical split. Sports revenues represent 25% of total revenues in Q3, which corresponds to growth of more than 100% from last year, driven primarily by the US focused sports assets we acquired at the end of 2021 compared to Q2. This a decline of 9%, which relates to a shift of efforts within some affiliation from sport to casino revenues. This was to some extent offset by an increase in US sports and thus we Q4, we expect this to grow and we considered an increase in focus area sports revenues that we've seen so far in 2022 to be an important milestone for us. Casino revenues came in at 75% of total revenues for the quarter, driven by improved performance.

on affiliation marketing assets as well as seasonality. And additionally, there was an increase in casino revenues relating to sub affiliation.

And the next one. The slight decrease in indices year-on-year relates to assist in markets, with the growth tilted slightly more towards high value leads it's also an effect of us on all markets actively targeting brands and traffic that generates higher value ahead of a high number embassy accounts. Compared to Q2 of this year we're up in indices both within affiliation marketing as well as sub affiliation. And again, this is a combination of seasonality and performance.

And next slide EBITDA in absolute numbers have grown with close to 22% from Q2 and our EBITDA margin has increased from 35% to 37.1%. The growth, as we have highlighted, is an effect of increased revenues across all products are predominantly fixed cost base consisting of employee cost and operating cost are stable in the quarter and very much in line with what I covered earlier is of an increase in sub affiliation drives direct cost with a margin of around 10% to 20% as you can see in the slide. As this area increase as a share of total revenues, it leads to an increase in EBITDA but has somewhat of a dampening effect on the group's combined EBITDA margin. As an opposite effect the fact that our other costs are scalable means that when an increase in our high margin assets within affiliation margin marketing has a positive effect on our margins. As around the Q4, with expected further growth within affiliation marketing and improved margins with better performance from our improved margins with preferred performance from our [indiscernible] 00:19:44 area. We expect the margin to improve even more for the full year. We are targeting a margin of just slightly below 40%. But as I've highlighted, it depends a little bit on how the product mix develops.

And next slide. The largest items below EBITDA are depreciation and amortization on our intangible assets. Other finance costs, which represent the discounted value of our outstanding earn-out liabilities. Important to note is that these items are a non-cash effected items, which is why cash conversion remains closed for everything which we can see in the next slide.

And as I mentioned, we continue to see high operational cash flow. Cash conversion was close to 90%. This quarter, the cash flow is somewhat impacted by a timing effect for trade receivables, which is expected to even out in the coming quarters. Earn out payments of SEK 1.1 million relates to Casino Fabre, which is an earn-out that comes to an end towards February of next year. And from that point, we expect net cash flow to improve significantly. As a last point, we have capitalized some costs relating to the development of affiliation cloud of about €0.2 million.

And back to you, Oscar.

Oscar Karlsten

Chief Operating Officer, Raketech Group Holding Plc

Thank you, Måns. It's time to wrap things up. Let's start with the financials. Q3 revenues totaled €13 million, equivalent to an annual growth of 35%. We grew organically with 14.2%, which considering tough comparison numbers and change regulations in Finland and the Netherlands is strong We grew organically with 14.2%, which considering tough comparison numbers and change regulations in Finland and the Netherlands is strong. EBITDA amounted to €4.8 million, corresponding to a margin of 37.1%. With regards to milestones, our US revenue share of total amounted to 11.5%, and Nordics amounted to 49% of group total.

And finally, sports came in at 25% of total. Looking ahead, Q4 is as expected off to a good start with revenues totaling €5 million in October. We do expect Q4 to continue to be strong thanks to the casino peak season, but also the FIFA World Cup. I want to point out, however, that having the World Cup in November is an untried concept and difficult to, with certainty, predict the effects from. Furthermore, this is our first year with significant US revenues, and we are also humbled to the fact that we don't have multiple years of experience predicting the seasonal effects just yet.

With that said, we predict our revenues to come in comfortably within our full year guidance, but depending on which market and which product that grows the most, EBITDA margin for the full year will most likely land slightly under 40%. Through continued growth and a strong margin with higher cash generation, I'm happy to be able to continue to invest in strategically important – the strategically important US markets, our flagship assets, as well as the affiliation club, which we feel confident will enable Raketech to continue to grow. And with those words, we are now ready for questions.

QUESTION AND ANSWER SECTION

Operator: [Operator Instructions] [Operator Instructions] The next question comes from Marlon Värnik from Nordea Markets. Please go ahead.

Q

Yeah. Hi. Good morning, Oskar and Måns and thank you for the presentation. So a few questions here. Maybe we can start on the Affiliation Cloud it seems to do pretty well, but how should we view this go into the seasonally a strong Q4, but maybe more importantly go into 2023 in terms of growth and profitability, if you can elaborate – sorry so that it would be great? Thank you.

A

Yeah. Good morning, Marlon, thank you for the question. We haven't guided specifically on the Affiliation Cloud as such. We've said that we – we're aiming at €10 million in revenues within two years from this business area it is however picking up a little bit faster than we first anticipated, which is a positive problem, but we don't have a good guidance for the next year just yet, so we'll have to get back to you with that as soon as we have those projections ready.

Q

Okay. Thank you. And on back of the EBITDA margin cut here for 2022, is it followed due to the Affiliation Cloud investments or what other things have impacted here?

A

Yeah so it's primarily the sort of mix of products. So we came in slightly of a higher share of sub-affiliation revenues. And apart from that, the other costs are actually quite stable. So it's primarily the sort of the mix of the products, yeah so in the short-term quarter, if we're expecting to see in Q4 as well.

Q

Yeah. Okay. Fair enough. And then also on your 2022 outlook here on revenue but also EBITDA margin when you communicated your outlook earlier this year. What effect did you penciled in for the World Cup? So basically, what do you expect here for the World Cup to impact on revenues?

A

Yeah, we haven't quantified that in the projections, but obviously there is a national effect. One has to, however, also keep in mind that we have roughly 25% or we had during Q3, 25% of revenues coming in from sports. So obviously, if it would have been a casino World Cup, it would have been impacting us more than a sports event. So it is having a significant effect, but it's not as dramatic potentially as if would have been casino. We haven't quantified the exact effect officially, but there's an effect baked into our own projections.

Q

Okay.

A

Important to note as well that the US it's we're tilted obviously towards the US sports and the World Cup is not as interesting for the US consumer as it's structured [indiscernible]

Q

Yeah. And then maybe finally for now. Have you seen any indications of any consumer spending or any other ICU you follow for activity for your business yet?

A

Yeah. That's an interesting one. We have been so far knock on wood fortunate enough not to see any major effects from that. We're, of course, humble to the fact that this might impact the gaming industry eventually. But so far we haven't really seen an effects from that. If you look at the gaming industry as such is also growth driven by the fact that there's, there's a shift from, from offline to online. So exactly how this will play out in the long run, it's hard to predict, but we don't at this point see any, any major effects from those macro factors on our – on our ability going forward.

Q

Okay. Great. That was all from me. Thank you.

A

Thank you.

Operator: The next question comes from Rikard Engberg from Erik Penser Bank. Please go ahead.

Q

Morning, guys. My question is that I've noticed that some US operators have seen decreased customer acquisition cost lately. Have you observed this and how will this affect you?

A

Good morning, Rikard. We've noticed that what's been written as well about this, we haven't seen those – we haven't seen the dramatic effects that that we've read about that others have experienced so far. So to simplify the answer, no, we haven't seen those effects as of yet.

Q

Okay. Cool. Is that related to income next that you have tips rather than CPA?

A

No, I was interpreting it as a question with regards to more of the CPA levels. So that was excluding – excluding that. But obviously, due to the fact that we have a significant share of our revenues in the US coming from tipsters, we would be less affected by changes in CPA levels on the US market. As for now at least.

A

Okay. Thank you.

Q

That was all for me.

A

Thank you.

Operator: Thank you. The next question comes from Marlon Värnik of Nordea Markets. Please go ahead.

Q

Yeah. So just a few more questions here. The other cost posting -- the Q and Q, I assume you're taking with casino fee over here. Can you specify how much of the other costs relate to the

Casinofeber. And also how should we expect the effect to go into Q4 and the Q1 next year?

A

You want me to take the first one of the perhaps? Yep. And then you can elaborate a little bit on 2023. Yep. So there is there's a little bit of an impact and not a lot in Q3. We're expecting a little bit more in Q4. The team that [indiscernible] we brought on is obviously the resources we've, we've found internally. So they've been with us for a long time. But I know obviously taking over operations and investing in the product will have a little bit of an impact. I don't see it being material for Q4 and I'll hand over for [indiscernible] 2023 and the plans for next year.

Q

Yeah. So. So with that said, obviously, Casinofeber is it's one of our largest assets. It's very important for us. So we're going to put enough effort into that product to make sure it grows even into the future, which means that we need to have resource, enough resources and marketing money dedicated to that product.

If you look at what's important to maybe keep in mind here is that because it's been run as an earn out, we haven't been able to keep all of the cash because of the earn out, the earn out is true so we do anticipate the future for casino if we have been isolated to be slightly lower in margin than it has before, but still on a very, very high margin at around 80% to 90%. But the significantly higher talent contribution, that will be the effect and that would be more of a technical bookkeeping effect than anything else. But the cash conversion is still nil. Not sure if there was an answer if that was answer enough to your question, Marlon.

Q

Yeah, absolutely. Thank you, Oskar. Yeah maybe just lastly more generally here from my side. The tips the business, I mean, it accelerated as expected from mid-September onwards in the US. Can you maybe walk us through a bit on the dynamics into the business what's the sports split what's the average length of contracts, and maybe also profitability compared to the rest of group. Any comments here would be great? Thank you.

A

Yeah. So it's partly subscription-based or fixed fee-based the tips is very typically opt-ins for full leak or for a specific game so those types – two types. And I'd say that the description – subscription part where you stay with us for quite some time for an entire league or for two entire leagues is the most common one. Then there's also the component which we mentioned in that presentation, which is the win-share.

So one of the unique offerings that we have in the US is that we also price ourselves sometimes a bit lower in order to get these players in. And we get bonus basically on how well we are able to give them facts and predictions for the leagues and for the games. And if we're doing well, we get bonused that and that is also a significant share of the US business and that makes it a little bit volatile just like a sports book margin. If it would been an operator, it varies a little bit between the quarters depending on the outcomes of the games.

Q

Yeah. And on the sports split I assume it's in fairness a bulk [ph] outlook?

A

Yes, yes, definitely. It's just like you would expect it to be in the events.

Q

Okay. Perfect. That's all from me. Thank you.

A

Thank you.

Operator: There are no more questions. So I hand back to the speakers for questions for webcast and closing remarks.

A

Yeah. We actually do have two questions one is relating to Casinofeber and our earnout and impact on revenues and costs. And I believe we covered that through the question of from modelling from the Nordea and the second one relates to if we are benefiting of any new states opening up in the US in 2022 or 2023, if you have anything to add on that one Oskar.

Oskar Mühlbach
Chief Executive Officer, Raketech Group Holding Plc

A

Yeah, yes. Obviously we like regulations in the US because that means that states are targetable for our affiliation efforts. So obviously the more regulated states we see the better it is one need to remember that we're still not as big in the US so it doesn't have for the group. It might not have a significant impact if one or two states open up. But obviously, in the long term perspective, it's super important that as many as possible of the states in the US are open up for online gambling. But there aren't any, to my knowledge at this point major game changes in the short perspective, there was discussions about California, which seems to unfortunately go in the wrong direction, which would have been obviously a massive opportunity. But I don't think the last word is said with regards to that. So we'll just have to wait and see.

Unverified Participant

Yeah, I think that was it. So we can go to closing remarks.

Unverified Participant

All right. Thank you for listening in today and thank you for all the clever questions. We look forward to talking to you again in connection with the Q4 and 2022 Report in February next year.