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Raketech Group Holding Plc (RAKE.SE)

Q4 2022 Earnings Call

CORPORATE PARTICIPANTS

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MANAGEMENT DISCUSSION SECTION

Operator: Welcome to the Raketech Q4 2022 Report Presentation. For the first part of the conference call, participants will be in listen-only mode. During the questions and answers session [Operator Instructions]

Now I will hand the conference over to the speaker, 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 final report for the year of 2022. My name is Oskar Mühlbach, I'm the Group CEO. And with me is also our CFO, Måns Svalborn. As usual, we have three topics on the agenda before we open up for questions. Once again, welcome and let's get started. Financially, Q4 ended on a strong note with yet another revenue record for Raketech. Revenues for the group amounted to €15.7 million which is equivalent to 32.5% growth year-over-year. In our industry, Q4 is typically the strongest quarter of the year as an effect of seasonality, but this year we were also helped by strong operational performance across most assets as well as an increased interest for our products thanks to the FIFA World Cup in November. For the full year, we came in at €52.6 million with an EBITDA of €20 million which is in line with our guidance. In comparison to previous year, this corresponds to an annual revenue growth of 36.7% and 23.9% EBITDA growth. In Q4, we generated €6.3 million worth of EBITDA at a 40.3% margin which is proof of our scaling nicely with increased volumes. We furthermore delivered an EPS of €0.07 per share which is the bottom right number in blue in the presentation. Thanks to strong organic momentum within affiliation marketing in general and sub-affiliation in particular. Organic growth reached 23.1%, which makes Q4 the strongest organic quarter of the year. For the full year, organic growth amounted to 10.8%.

Furthermore, the Board of Directors recommends the AGM to decide to distribute approximately €0.094 per share in dividends. And looking ahead, we've had a good start to 2023 with January revenues totaling €5 million, which is strong as we usually experience lower demand during this time of the year. We're currently focusing our efforts on the US sports assets as the first quarter is filled with engaging sports events such as the Super Bowl and March Madness. Worth mentioning, perhaps, is that last year our offering relating to these events did exceptionally well. So the comparison is expected to be a bit tough. Additionally, as I mentioned in our previous report, we're also working hard on launching the affiliation cloud to more clients to accelerate growth already by the end of Q1.

And now to some operational highlights. As you know, we nowadays have three main business areas or commercial offerings with slightly different target audiences, technology and margins, affiliation marketing to your left here on the slide is our core. And this is a high margin and well established business area. A milestone worth highlighting is that we do in Q4 took over the operational responsibility for one of our largest assets, Casinofeber completely. And as a little taste of what the new team has in store for us, I want to mention Casinotempen, which is a unique investigation into the Swedish casino markets in which we have mapped a unique investigation into the Swedish casino markets in which we have mapped typical casino player drivers, demographics on which casino they appreciate the most much, much more. The full report is made available in English as well as Swedish on casinofeber.se.

In other news, one of our other flagship assets, Casino Guide, has gained ground in Sweden and is now at an all time high, placing it among our absolute top portfolio assets. We initiated investments into this asset already two or three years ago and I wanted to bring it up in today's presentation as an example that hard work and long term thinking pays off, but also as an example to show that SCO takes time.

If we look at the yellow segment in the middle, sub affiliation growth was close to 53% where the majority originated from our network sales. And in parallel, although from small levels, the affiliation cloud continued to expand by adding eight new clients where two were fully managed accounts. And with managed accounts, I mean clients where the affiliate hands over all affiliation contracts and all reporting not only selected parts. Furthermore, Affiliation Cloud went live in South America and India in February of 2023. The product won the IGB Best Tech for Affiliates 2023 at the ceremony in London.

And within our betting tips and advice business area to your right, we launched a new platform for picks and parlays to support the continuously growing number of user sessions. We also appointed a new Managing Director who joins us from BCG in New York. His name is Ramma Sharifi, and he brings strategic and commercial knowledge with the aim to accelerate growth in the US, but also to help us within the area of M&A and business development.

Finally, we added dedicated commercial and operational resources to focus on affiliation, offering to our existing betting advice assets on our existing advised assets. And with that said we have large ambitions for each and everyone of these business areas and we expect all three to continue to thrive going with affiliation marketing being the more steadily growing and high margin area and sub affiliation being a more opportunistic of more opportunistic nature with stable but lower expected margins. With that said, the Board of Directors has decided that the old financial targets, based only on affiliation marketing, has lost its relevance and therefore chosen to replace this with short term and more detailed financial guidance, which I will talk more about on the next slide. So for 2023, we estimate group revenues to amount to €60 million to €65 million, which corresponds to an organic growth of 15% to 25% for the full year, which in other words, it's noticeably higher than the previous financial targets of 10% organic growth. This includes all business areas and all markets. As we take over operational responsibility for [ph] Cassiano Faber and will have a full year with infinite leads, we estimate approximately €2 million in additional operational costs. This is during 2023, expected to have a slight dampening effect on EBITDA growth, which is projected at up to 20% depending Elisabeth, on where within the revenue interval we will land. Worth pointing out in this context is, however, that even though operational costs increase with €2 million as we take over Casino Fabre and Infinite, its net cash flow increases at the same time with as much as €6 million to €8 million. This means that distributable cash flow is projected to increase 120% to 160%, putting us in a position in which we can allow ourselves to both pay out dividends and continue to be opportunistic when it comes to M&A during 2023 and onwards.

As we replace our long-term financial goals with annual detailed guidance, I quickly also wanted to take the opportunity to again walk you through how we aim to deliver on this and our strategy to continue to deliver growth even after 2023. Starting to your left with the flagship growth area. Simply put, we believe that with the maturing markets, well-educated users and more demanding advertisers, we need to make sure we have the best products possible. We believe this to be one of our greatest opportunities, where our central platforms, our central audits and data analysis teams, as well as our wide range of available systems and tools, can make a big difference for each asset individually.

Investing into fewer but better products also lowers search ending risks and creates natural user loyalty. In 2023, the overtake of Casinofeber is of course our top priority and here we have lots of exciting activities planned. We will also be looking into expanding the fast growing casino guide into new markets. And finally, we have identified a possible opening in the US markets for our slots job assets.

Looking even further ahead, we are investigating external marketing and various forms of corporations as well as building services where the end users don't only use us as reference but also creates a relationship with our assets similar to what we have done with our 100,000, over 100,000 recurring TV Sports Guide users today.

Moving over to the middle segment on this slide US affiliation. During 2022, we have invested into the US organization and experimented with various ways of introducing affiliation on our pickster assets. We've had some success, but I would have hoped we would have moved a little bit quicker, which is why we are doubling down on this as from now on and expect thereby to see accelerated results during the year and forward. Looking even further ahead, we are introducing a central and more modern CRM platform to the US as well as expanding our US generic content to a more state by state like tailored experience. Finally, affiliation cloud is soon ready to be marketed with full force. We will not stop building new features and functions, of course, as this is the only way to keep ahead of competition, but we won't any longer hold back on efforts to take market share.

Looking ahead of 2023, this business area is perhaps the most difficult one to estimate and a big reason why the use of long-term financial goals is not relevant for us at this point. But to be clear, nothing has changed with regards to our goal of reaching €10 million in run rate by the end of 2024. The market for the product is enormous and we believe that most operators and affiliates at some point will move all or large portions of their volumes to affiliation cloud, but it is difficult to say exactly when and how this will happen. Worth pointing out is, though, that we have already that we are already in dialogue with several large operators with regards to consolidating all or most part of their affiliation marketing under one umbrella, one report, one invoice, one contract, contact to one person. Additionally, we also aim to launch new services through the Affiliation cloud, such as more advanced data analysis or automated notifications on performance deviations, which we also hope to monetize on in the future. And also and this is important, the affiliation cloud database can be used and will be used to find interesting acquisition targets based on their performance.

And with those words, I will hand over to Måns go through the financial details. Måns?

Måns Svalborn

Chief Financial Officer, Raketech Group Holding Plc

Thank you, Oskar. So this is a slide or an illustration of our EBITDA development, but more specifically, our cash flow net of earn outs for the last few years as well as our outlook for 2023. As Oskar highlighted earlier, we are expecting EBITDA to come in between €20 million to €24 million for 2023 driven by the strategic growth drivers presented. Important to point out here is again that the two of our earnouts, namely Casino, Faber and Infinity, are coming to an end in 2023. And from an EBITDA perspective, the fact that we've taken over this assets will have an impact of approximately €2 million for 2023 as operational costs increase with us running these assets in-house. However, as a direct positive effect as these burnouts reach final settlement, our free cash flow at the same time will increase with about €6 million, leaving us with an expected free cash flow of €11 million to €13 million, which is a significant increase from prior years.

Looking beyond 2023, our last remaining bigger or not relates to cash symbol. This is an asset that continues to outperform our expectations, which we're happy about during Q1 of this year. We have renegotiated the settlement terms for the earnout and in broad terms, the renegotiate -- renegotiate the terms means that will settle up to €15 million in 2020 -- 2024 for part of their notes and any remaining amounts come through the amended terms, the deferred up until Q3 of 2026. And this enable us to have good visibility on our projected cost position as well as cash flows and leaves us room to continue to be active within M&A as well as living room for any future dividend paid outs in line with a proposal from the board.

As expected in Q4, we saw revenues increase sequentially and we are with close to €16 million yet again at an all time high for the group, starting with affiliation and marketing. The positive momentum we saw in Q3 continued in Q4. The FIFA World Cup delivered as expected, boosting revenues and general activity both within sports but also casino. We saw our Swedish assets generally perform well and our assets in rest of the world continue to outperform.

As we've highlighted before, affiliation marketing is and will continue to be our core business area. It represents 66% of total revenues in Q4 and with its high margins of around 60% to 80%, helped push the group's overall EBITDA margin in the quarter.

Sub affiliation continued to grow in Q4, representing 22% of total revenues and margin was around 20% in the quarter. Lastly, our US focused betting tips and subscription services increased as expected in the quarter as a neutral effect of US sports activity picking up with primarily the NFL season. Revenues within this area are predominantly based on win share prediction. And as we highlighted in Q3, the start of the season was somewhat below expectations which lift Q4 as well slightly below our expectations. This slide illustrates our revenue diversification split on regions, Nordics continue to show strength in Q4 with our Swedish affiliation marketing assets driving the majority of the growth. And it's been very encouraging to see that the majority of our bigger sites in this markets are growing.

Within sub affiliation, there was a slight shift from the Nordics to other markets which to some extent offset the strong growth we saw in Sweden. Rest of the world grew with 36% from Q3 through Casumba, increased activity within sub-affiliation and also some positive growth in LatAm. US, as I mentioned, picked up in Q4 in line with the US sporting calendar. And even though revenues grew with 60%, we do have higher expectations for this area. With regards to our vertical split casino revenues came in at 73% of total revenues for the quarter, with a quarterly growth of 19% driven by improved performance on our affiliation marketing assets as well as seasonality. Additionally, there was an increase in casino revenues relating to some affiliation.

Sport revenues represents 27% of total revenues in Q4, which corresponds to a growth of more than 60% from last year. This is driven partly by the US focused sport assets we acquired at the end of 2021, but again also the FIFA World Cup boosting revenues. Our embassy development for the quarter reflects the generally strong performance we saw in Q4.

We saw indices increase for the majority of our biggest assets as well as increase activity within sub-affiliation. In line with our previous guidance for Q4, EBIDTA grew in absolute numbers and margin wise we did see an increase from 37% to 42% which is a direct effect of a relative increase in share of total revenues for a high margin affiliation marketing assets. This area scales with a direct positive effect on our overall group margin and worth highlighting again is that any growth within sub-affiliation with a more stable margin of around 20% will increase direct cost as illustrated in the graph. And my last slide is the cash flow which Q3 to Q4 of this year, very briefly on this slide, I would just like to highlight again the effect of Casinofeber and Infinilead earnout payments that would come to an end after Q1 of 2023, which will improve our cash flow net of earn outs. Thank you. Back to you, Oskar.

Oskar Mühlbach

Chief Executive Officer, Raketech Group Holding Plc

Thank you, Måns. That was the last slide of the day. So in short, I'm very happy with our performance during Q4 as we delivered a new revenue record of €15.7 million, coupled with over 23% organic growth and an increased EBITDA margin. I'm also happy with our general strategic and financial position and pleased to announce that the Board of Directors is suggesting prudence of approximately €0.094 per share. Furthermore, I am excited about finally bringing some of our largest acquisitions in-house and to see what our talented in-house team can bring to the table I'm not going to give away too much at this point about their plans, but considering the success we've had with Casino Guide, I can't wait to get started. Not only from a growth perspective, of course, but also from a cash flow perspective where we already during 2023 will be able to notice a significant increase of approximately €6 million to €8 million as a direct effect of this. For 2023, we expect revenues within the interval of €60 million to €65 million, EBITDA of €20 million to €24 million and a distributable cash flow of €11 million to €13 million. And with that said, it seems us 2023 is off to a good start with January revenues amounting to €5 million.

And with those words. Let's move on to Q&A.

QUESTION AND ANSWER SECTION

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

Q

Hi. Good morning. Good morning, Oscar and Måns. So a couple of one from me. Firstly, I mean, as you said, a solid start here to the Q1 revenues, €5 million in January. But how should we view January in relation to February, March in terms of activity and maybe what churn do you [indiscernible] 00:21:36 in revenue guidance for the tipster business after March Madness?

business after March Madness? And how should we view us in Q2 after and after the March Madness, if you can elaborate a bit here on the rest of Q1, but also Q2 will be great. Thanks.

A

Good morning, Marlon. Thank you for the questions. So if I got you right here, a little bit of extra light on Q1 and potentially Q2, and then well, was there anything else in the question? Well, that was it.

Q

Yes. This is.

A

Right. Well Q1 is typically if you look at the casino, part of the thing is typically a slower quarter February having a few days less as well as other months. So Q1 is typically not the high season is the low season for Casino, which is why we're happy about the start of SEK 5 million. Looking at the US specifically, Q1 does, however, have a few activities that we are not used to from before, which is the major sports events. So we're looking forward to that. But as I said in the presentation, we had a very strong Q1 last year with regards to the US and the fixture type business. So we're looking at a tough comparison, but of course we have high hopes, but just bear that in mind. And more than that, I don't think I should guide or I can guide, unfortunately.

Q

Yeah. Okay, fair enough. And also, can you dig a bit further into the SEK 2 million course because you know, for the better and finally it's what causes coastlines more specifically or impact that and how.

A

Yeah. That's -- that's also good, Måns, you want to take it?

A

Sure. Yeah. So very simply put this -- the operational costs for for owning these assets have been shuttle through the earnout previously. And now that we're bringing these teams in-house, that will naturally increase operational costs for us, but it's more sort of a technical effect of it. So getting rid of quite material earnout payments, basically, very simply put the extension down for some increased operational costs. So that's why we're trying to point out the positive effect on free cash flow that we'll see from 2023.

And with regards to the line items, it's basically all related costs and personnel expenses of bringing these resources in-house.

Q

Thank you. And just last one from my side on affiliation cloud here. If you can elaborate a bit more about the growth path here in 2023, maybe when and what magnitude should we expect in terms of sales or what revenue and EBITDA margin levels are reasonable to assume if you can add an equal number, but also by adding it to the US assets with affiliation cloud how and has that impact. Thanks.

A

Right. So in terms of specific growth for affiliation cloud during 2023, it's included in the €60 million to €65 million revenue growth that we expect for the group which you if you compare to the previous financial goals of 10% organic growth is significantly higher this year. 15% to 25% is what we expect for the group. And in those numbers, we do have affiliation cloud baked in, if you will. And then the what we've said, which is still very valid, is that we are aiming at the annual turnover by And then, what we've said, which is still very valid, is that we are aiming at the annual turnover by the end of next year of €10 million for the affiliation cloud. But in this context, I also want to highlight what I tried to say in the presentation, that this is very difficult to predict. I think that the €10 million in run rate by the end of next year is that's an estimation that I feel very comfortable with. But if things go very well, this might as well also be a much higher number. But we don't want to give any estimates or predictions on that. But that's also a bit complicated to predict because we simply don't know at this point. So it's a bit hard to guide on it. And obviously, affiliation cloud increases much more, substantially more of them than these type of guidances we will, of course, return with information about that because that will have effect on group margin, because it is run on a lower margin, more stable margin, around 10% to 15%, I'd say 10% to 20% maybe.

Q

Perfect. Thank you. That's all for me.

A

Thank you.

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

Q

Good morning, guys.

A

Good morning.

Q

So I have one question regarding the new guidance and growth going forward. Since you stated that you see high growth in sub-affiliation and getting tips and advice, can we assume that the gross margin will fall down during 2023 and in coming years, 2024 and 2025 due to the different mix?

A

Yes, you can.

So again -- going back to Oskar's previous comment, the timing of when this growth and how they balance out a little bit is obviously slightly uncertain but. Well when the growth comes. You're exactly right. The gross margin will shrink to some extent.

Q

Okay, good. And one more question, if I may, regarding betting tips and advice. How can you describe how this is affected by result and sport margins for operators?

A

Yeah. That's a good question as well, it's to simplify it a lot. It's very much the opposite of the sports book margin. So our job, what we offer to the consumer is with the help of skilled and trained experts that use data foundation, we help them. We help the consumer to bet on sports, basically. And for this, we charge the consumers subscription fees. So it is one part where you pay to get access to this advice. And then we also have a system where we get paid more if our advice leads to them beating the house. So this is also to some extent explaining parts of you know, volatility where we could use like a sportsbook operator has a good streak and a bad streak for some time.

Q

Okay, good. I think that was all for me. Thank you.

A

Thank you very much.

Operator: There are no more questions at this time.

So I hand the conference back to the speakers for any closing comments.

A

Right. So we do have a couple of questions in the chat here, Oscar. So the first one of do you have any insights and thoughts on the development of the unlicensed Swedish market and if this is holding your business back in Sweden?

A

Yeah. All right. That's a very relevant question we have over the last I'd say since that since Sweden reregulated back in 2019, this has been a major issue for a lot of us affiliates, but also from the operator perspective, of course. But we're seeing a positive, positive change here where the Swedish legislature is finally taking action against the unlicensed the black market, basically putting in various obstacles and sanctions potentially against payment providers and as from made to this year, also introducing new laws to get to other parts of the value chain that is supporting the black market. So we're finally looking positively on the development with regards to the black market in Sweden, where we hope to see that most of these most of this volume over the next one or two years will return to the black market. So to the white market, of course.

A

All right. Another one [indiscernible] become quite substantial. Could you give some color to how the earnout is structured? Is most all of [indiscernible] EBIT kept by the founders is most all of Casumba's as it's kept by the founders. So, yes it has grown which we are, I mean, very, very happy about because it's, it's outgrown our expectations. And we are, it's a positive sign that it's growing. From a commercial perspective, we have not disclosed how the earn out is particular structure, but as you've probably seen in the report, we have come to an agreement to how we structure the settlement in the next few years which we think is a good step forward and gives us a very good visibility on our future cash flow position and, and predictions where we think we'll find a balanced way of keeping up with M&A and investing internally and proposed dividends should the board continue to do so.

Q

Right. We have a question on affiliation cloud. How many partners in the quarter and how much revenue in the quarter?

A

Yeah. [indiscernible] sure, I, we, I don't think we at this point we haven't, we have decided not to gauge specifically on the affiliation cloud. We will of course, I understand that there are a lot of you that are interested in knowing exactly how this project, how this is proceeding. We will later on this year come back to this when we have a little bit more meat to the bone and we've after we've been more aggressive in terms of, of sales purchase, but it's going in the right direction. We are constantly adding more and more clients and we're having really interesting discussions also with operators, as I mentioned in the presentation about potentially consolidating all or parts of their entire affiliation marketing segment. So I'm super excited about this for 2023, but I can't at this point disclose the exact numbers, I'm afraid.

Q

Yeah. Thank you. Another one. Hi. Hi. Could you walk us through the difference between the EBITDA of €20 million to €24 million and free cash flow of €11 million to €13 million? In your guidance, what will the CapEx consist of in detail?

A

Yeah. So this the gap between free cash flow and EBITDA, to some extent, we capitalize at least part of the development for the affiliation cloud. This is a smaller amount than essentially the remaining balance relates to current earn-out payable – payables we have in 2023 relating to the end of Casinofeber and then part of the Casumba, one of them that relates essentially to two paid earn-outs for next year.

A

And I think maybe Måns an important point to make in this context because I think this is a very relevant question, is that once the final earn-out settlement, the final earn-out payment to f Casumba is made, our EBITDA will basically equal our cash flow or cash flow will equal EBITDA. So that's a very interesting milestone once we pass that lost payout.

Q

Yes. Thank you. Another one here. Segments with lower EBITDA margins grow faster than affiliation marketing, do you see EBITDA margins being lower in 2024, Segments with lower EBITDA margins grow faster than affiliation and marketing and do see EBITDA margins being lower in 2024 than 2022.

I guess the short answer is yes. That could definitely be an effect of us having a larger share of lower margin segments within the group. And this is one of the reasons that we replaced the financial targets a little bit as well and have a bigger focused instead on profitability for the entire group and then the mix of the different segments and we'll see how that plays out in the next couple of years.

A

Yeah. I think just to add to what you said I think it's important to understand that we don't guide long term on margin in that sense. I want to point out that our core affiliation segment is expected to grow in-line with or above the previous financial targets that were 10% organic growth. And this is a very high margin segment. And then we simply don't know exactly how much the sub affiliation segment and the picture segments will grow over the next two years. But depending on how that mix plays out, we might have a slightly different margin, but I don't think you can be certain say that it will be lower or higher at this point, unfortunately.

A

Yes. Thank you. Let's see. Yeah. What is your view on the Japanese online casino market in 2023 or are you expecting the market to grow strongly or regulations a big risk in your opinion?

A

But also a relevant question. We see Japan as a pre-regulated market. And we think that it's very important for Raketech to have not the majority of our revenue, but a significant share of revenue on pre-regulated markets. This is very opportunistic. Those markets are typically growing faster than others and also typically much more profitable than other markets because operators are fighting to gain market share.

And once the markets regulate, we come out with pole position. So I think it's important for us to have a few of these markets, these pre-regulated markets to be opportunistic. And of course, pre-regulated markets do come with a certain level of risk. Exactly how big that risk is in terms of Japan is really hard to say at this point. But we believe that it's a sustainable market for years to come and we think it's a nice and growing market. It's turned out to be a nice and growing market for us at least.

Q

Yeah. And I believe the last one. Can we consider EBITDA outlook as conservative lower end of estimate projects, near 0% growth. And then the second one, and that one of the board consider share – share buybacks. And on the EBITDA outlook, we've given an interval now for the full year. We'll obviously keep you updated on how we progress towards this target throughout the year. And with regards to share buybacks versus dividend this year, we're proposing dividends. And yeah, and they'll terms will be taken into consideration as we go along. But for this year it's a proposal of dividend I think.

Unverified Participant

Yeah. Was that the last question Måns.

Måns Svalborn

Chief Financial Officer, Raketech Group Holding Plc

That was the last one.

Unverified Participant

Brilliant. So thank you so much, everyone, for joining the presentation today. And also a special thanks to all the questions. Very valid, all of them and a lot of them today. So very happy about that. And we look forward to talking to you again in connection with the Q1 report in May. Thank you very much.