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# Raketech Group Holding Plc (RAKE.SE)

Q1 2023 Earnings Call

## CORPORATE PARTICIPANTS

### Oskar Mühlbach

*Chief Executive Officer, Raketech Group Holding Plc*

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## MANAGEMENT DISCUSSION SECTION

**Operator:** Welcome to the Raketech Q1 2023 Report Presentation. For the first part of the presentation, participants will be in listen-only mode. [Operator Instructions] Now I will hand the conference over to the speakers CEO, Oskar Mühlbach; and CFO, Måns Svalborn. Please go ahead.

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### Oskar Mühlbach

*Chief Executive Officer, Raketech Group Holding Plc*

Good morning, ladies and gentlemen. Welcome to the call. My name is Oskar Mühlbach and I am Raketech Group's CEO and with me is also CFO, Måns Svalborn. We're here to present Raketech's financial results for the first quarter of 2023 and once we've done so, we're happy to answer any outstanding questions during the Q&A section at the very end. Once again, welcome.

As you can see on this slide, the first quarter of 2023 has is off to a good start with total revenues amounting to €15.8 million corresponding to close to 25% growth, which also worth highlighting is all organic. Taking into consideration that Q1 typically is low season for us, we're very pleased with this number. And as a consequence of the strong revenue number, we also managed to deliver solid EBITDA both in terms of absolute terms as well as margin. €6.1 million and 39% respectively. The perhaps somewhat stronger margin than expected relates to benefits of scale and materializing with increased volumes, but also thanks to a favorable market and product mix. And on this note, it is also worth highlighting that our high margin affiliation marketing in the rest of the world, as well as the Nordics, stood out positively.

as well as the Nordics stood out positively. Consequently, our Nordic share increased to an all-time high of close to 64%, while the Nordics at the same time, in fact, grew with almost 7%. In other news, we saw an expected yet significant uplift in cash flow after making the final earn out payments to the Casinofeber founders, a positive effect that will increase even further from Q2 due to it being a full quarter worth of Casinofeber cash flow for us. EPS, the number on your right hand side here on the slide, increased with close to 23% compared to last year to €0.07 per share.

Moving on, here is a slide with some more details on our three business areas. On your left you have our core segment, which is high margin and scalable affiliation marketing. And as I mentioned on the previous slide, we've had strong performance here during Q1. Operationally, we're doing a lot of things right it seems, at the same time as the demand for our services is high and the underlying markets are showing growth. During Q1, total growth from this area amounted to close to 32%, all of it being true organic growth.

Moving on to sub-affiliation, which is the yellow segment in the middle of the slides, I am happy to conclude that this business area delivered exceptional results during the quarter and there are a few things worth pointing out in this context. First and foremost, we had great success with our network product, which simply put, is when we help operators and external affiliates working with paid media to drive new users. By nature, this product is a bit

opportunistic and variations between quarters is expected to be higher than within, for example, affiliation marketing. The network product originates from an acquisition we did in 2021, which has since long been handed over and is being run by the Raketech central team. Post-acquisition revenues have increased with approximately five times and post-handover with approximately two times. On the other side of the scale, our smallest business area betting tips and advice to your far right on this slide part is softer than expected start of the year. Revenue levels are in line with Q3 last year, but it did not manage to beat Q4, which we did expect it to do. Compared to the exceptionally strong Q1 of last year revenues declined with approximately 31%. This decline is a decline in revenues is predominantly relating to the win share component, which is when we are bonus by players based on the accuracy of our predictions.

And before we move on to the financial details, I want to take this opportunity to also quickly revisit our three growth drivers and how we're progressing. Starting from the top with flagships. Fundamentally, we believe that long-term it is essential to invest in fewer but better brands, which we then called flagships. This, in addition to great scope, to ensure their ability to attract and engage users by offering high-quality content and relevant features and functionality. This strategy does not only apply to traditional affiliation, but also, of course, to betting tips and subscriptions or any other products we might have in the future. Simply put, this means that we are in parallel narrowing down and increasing our investments into fewer but stronger products to ensure our user offering also is sustainable in the long-term. For competitive reasons, I can't give you our detailed long-term plan, of course, but to give you a flavor, here are some examples of what we have achieved or we're worked on our detailed long-term plan, of course, but to give you a flavor, here are some examples of what we have achieved or worked on during Q1. For casino 00:06:00 fiber [indiscernible] we are beta testing a completely new platform which we hope to release later this year. The platform will allow additional features and functions as well as provide a more efficient way of running the product while also collecting more granular, precise data. In parallel, we're working on taking our free to play slots product, slots job, up to the US, which is also planned for later this year.

In other parts of the world, our efforts on investments into online cricket betting seems to be paying off as we managed to beat our old revenue records confidently relating to the IPL with regards to our second growth driver, aiming to add traditional affiliation to our betting tips and advice assets in the US. We are making progress. However, it is taking slightly longer than initially expected to execute on this strategy. But with our new American and locally based managing director in place as of Q1 with increased Cross Atlantic collaboration and iGaming competence transfer being accelerated, I have big hopes that we would be able to see improved results already by the end of this year. Our third growth driver, the affiliation cloud expansion is progressing according to plan. We are continuously onboarding new partners and launching new features and functions. And during Q1, we launched our very own affiliation cloud dotcom domain, which will be used to market affiliation cloud globally. During Q1, we also recruited key personnel and launched key features, which now makes us ready to accelerate sales efforts in line with previously communicated timeline. And over two months in financial details.

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## Unverified Participant

Good morning.

Good morning. We are pleased to see that total revenues in Q1 surpassed those of Q4 and marks a record quarter for Raketech. Affiliation marketing our core revenue stream represents 68% of revenues in Q1 and increased from Q4, even though Q4 is normally the strongest quarter from a seasonality perspective. We saw significant growth from our previous acquisition Casumba fueled by general market growth as well as high performance from these assets.

Furthermore, our Swedish assets continued to perform well, somewhat impacted by expected seasonality, but growing from last year as performance has been improving. We also had yet another strong quarter for sub-affiliation which amounted to 23% of total revenues. This area continues to perform well and as we have highlighted before, it enables us to quickly and efficiently enter into new markets and consequently we continue to grow our LatAm revenues in this area.

Our smallest revenue stream being betting tips and subscription. So a decline in Q1 ending up at 9% of total revenues. This is as Oskar highlighted below our expectations impacted somewhat by unfavorable outcome for betting predictions. But given it represents a smaller portion of our total revenues it however had a limited impact on the period. As for the regional split and starting with the Nordics, this region is normally affected by seasonality in the first quarter compared to Q4 and we did see an expected decline from Q4. We are however, growing from last year and as I mentioned our Swedish assets are contributing positive a little bit to this gross. Finland and Norway are generally stable compared to last year with Finland more in a flattish development and Norway so far developing well. The significant growth in Q1 compared to last quarter and year-on-year comes from early from rest of the world. Casumba contributes significantly to this growth and these assets have yet to come in above our expectations with top rankings and a generally high investment appetite from operators in this market. Additionally, the significant growth in LatAm from a sub-affiliation offering through network sales also impacts with rest of the world growth positively during the quarter. Lastly our online cricket betting site showed a positive sign towards the end of the quarter. The vertical split on the right-hand side shows casino revenues growing from last year and also Q versus Q and amounts to 76% of total revenues in Q1. One point to make here is that sub-affiliation revenues, specifically network sales and its contribution to either sport or casino revenues will vary between the quarters as it depends on which markets and publishers grow in each respective quarter. And in Q1 specifically, the share of casino revenues increased in relative terms.

Our MDC intake have in the last quarters continued to increase and continues to grow in Q1. It is a reflection of our organic growth in an affiliation marketing, but also substantial growth from of sub-affiliation. And as we've mentioned before, and this is one of the metrics we're looking at when evaluating performance, performance that needs to be assessed in combination with product, market and sales mix, as well as overall estimated player values. The variations of NDC will not perfectly correlate with overall revenue development.

Q1 came in at an EBITDA of €6.1 million, just slightly below Q4 with a margin of 38.7%. As I mentioned previously, we did see growth from our high margin area of affiliation marketing, which maintained a high margin in the quarter. This was just marginally offset by slightly higher operational costs as we're continuing to build up the operations within sub-affiliation, specifically for Affiliation Cloud, but also some one-off consultancy fees. Generally, however, we are relatively stable with regards to our cost base and again worth pointing out is that we have a relatively big share of direct costs that, not sure it will [indiscernible] with performance primarily within sub-affiliation, however, with a stable overall margin.

Lastly, this slide illustrates our cash flow bridge in Q1. Overall, we saw strong operational cash flow with 100% in cash conversion. We set €4.3 million in earn-outs in Q1 for partial settlement of Casumba and ATS, as well as the final settlement for Casinofeber. Marketing the start of this product fully integrated in Raketech.

With regards to our full year guidance on free cash flow of €11 million to €13 million, we can reiterate this for the full year and we expect the remaining quarters to improve from here as only a relatively minor earn-outs to be settled for the rest of the year. Looking ahead past this year we have as a consequence of the exceptional growth for Casumba revised the earn-out in the quarter.

As a reminder, this earnout is performance based and it runs up until July 2024. And from a cash flow perspective, part of the earnout will be coupled with up to €15 million in 2024, and the remaining part can be settled up until September 2026, which gives us a lot of flexibility in terms of managing cash as well as do acquisitions and payout dividends in line with the current dividend policy. And that was it for me and back to you, Oscar.

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## Oskar Mühlbach

*Chief Executive Officer, Raketech Group Holding Plc*

Thank you, Måns. Those words we've come to the end of the presentation. So, to recap on what's been said, we've had a strong start to the year with revenue records and EBITDA scale scaling nicely. This despite the somewhat soft delivery from our betting tips and advice area. Org growth, 24.4% is organic and with rest of the world taking lead the for us so important non-Nordic share amounted to 63.5% which I'm very happy to see. Worth highlighting is that this share would have been even higher if we did not in parallel also experienced strong results from the Nordics with close to 7% growth.

Besides the market mix looking healthy, I'm also glad to see a healthy sports versus casino mix with 24% the revenues originating from sports betting. And operationally, we're in good shape and we continue to invest into our growth drivers from which we have already started to see positive signals while also doubling down on the US with reinforced management as of Q1. And with the last earnout settled for Casino Fair but it is great to see cash flow increasing as expected with more to come as from Q2 and onwards. Looking ahead, April revenues amounted to €5.9 million, which is strong, with particularly strong performance from network sub affiliation compared to April last year.

this could be considered as even being exceptionally strong. But important to keep in mind here is that last year's April was a bit soft, making the comparison favorable for us. And typically the end of Q4 is a slightly slower season as there are no major sports events during this time we consequently anticipate the somewhat softer markets during the last part of Q2.

Operationally, we are confident and judging from how our internal operational KPIs are looking, I wish to reiterate our full year guidance on revenues between €60 million and €65 million, EBITDA of €20 million to €24 million and free cash flow of €11 million to €13 million. And with those words, let's move over to Q&A.

## QUESTION AND ANSWER SECTION

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

Q

Good morning, guys.

A

Good morning.

A

Good morning.

Q

Great numbers and a couple of questions if I may. So first of all, looking at the gross margin, it increased from Q4 in Q1 and going forward, given the mix with sub-affiliation and traditional affiliation. How do you think it will develop during the rest of the year?

A

Yeah, you're correct we did see a slight increase in Q1 and we actually had a slightly higher margin primarily within network sales for Q1. It's slightly difficult to predict how that will play out by the end of – rest of the year, but it's going to be in line with what we've seen so far.

Q

Okay. Great. And my next question is regarding the earn outs you know this specifies the honor to be paid out this year and how have they been developed during the quarter?

A

Yeah. So for rest of 2023 it's a smaller amount of earn outs being paid out. So there's one related to the older Infiniti acquisition that's due to be paid out in 2023, but that's basically to go along.

Q

Okay. Thank you. That was all from me.

**Operator:** The next question comes from Marlon Varnik from Nordica. Please go ahead.

Q

Yeah. Thank you. Good morning Måns and Oskar, a couple of questions from my end here. So firstly, I mean, can you give some more color on the affiliation marketing performance here in the quarter? You talk about the rest of the world as a driver, but kind of can you give or dig into a bit more specifically on what markets are performing well and why and yeah any comments here would be appreciated? Thanks.

A

Yeah. Sure relevant question. We have historically not guided on the single market specifically, so I don't think well it's a good opportunity to do that at this time but there are revenues from predominantly three areas, which I can talk about so we have the Indian market, the Japanese market, but of course, also South America those three are all showing positive signs and good underlying growth.

A

Yeah. Fair enough. And how should we viewed in the market here in Q2? I mean, we have the Indian Cricket Premier League started March 30. I think should we expect that or of rest of world trend to continue here in Q2 or how should we view the e-bill trading up that over \$5.9 million or significant touch a bit on the US outlook for Q2 and Q3. What churn can we expect in tips of business, for example and so on?

A

Yes. So should we start with the IPL, our assets, the online cricket betting is not only targeting the Indian market, even though that's, that's of course an important market for that website. IPL is a major event within that sport. So, so consequently we see lots of activity on our assets and a high demand for from operators to have to advertise. I'm not sure if I can guide any more specific than that, but I think 00:20:46 [indiscernible] is part of the presentation that we saw a solid, solid end of Q1 when it comes to that specific assets and that is very much relating to the IPL. I'm sorry, can you repeat the second part of the question, please?

A

Yeah, sure. The second part on the US outlook, how should we view Q2, and maybe Q3 and the churn, can we expect, for example, for the tipster business?

A

Yeah. So I don't think you could use the the outcome from the tipster business from Q1 and extrapolation for the rest of the quarters. We've pointed out previously that this this particular business area is expected to vary a little bit more than the more stable affiliation marketing segment, for instance, between the quarter, because a

predominant part of that business is relating to the win share component. Our strategy in the US where we expect to see the majority of the growth coming mid to long-term is from adding affiliation to the strong assets we have in the US. And this is something we are working full speed ahead with dedicated resources in the US that's what I tried to mention in the presentation that we hope to see significant results from this by the end of this year and hopefully continue throughout the years to come.

Q

Yeah fair enough. And can you give any color on the tipster business performance here [indiscernible] related to the trading update you give of €5.9 million?

A

We are not – I can't yeah, Måns do you want to go ahead or ...

A

I think just a general comment is and this was typical from last year as well that we are entering into a slower season definitely from a US sports perspective just simply because of seasonality. So as a general comment, we can give that I think and as you know as well and then the NFL season picks up again towards September, but it is a slower season for sure, just from a calendar perspective.

Q

Yeah. Got it. And just lastly here, I mean, strong set of numbers here for Q1, also strong start for Q2. How should we understand your 2023 guidance here? Is it reasonable to assume that you're trending above initial expectations and towards maybe the upper end of the guidance or expecting a more softening market here in the Q2, Q3 and second half of 2023? Any comments on the guidance here [indiscernible] . Thank you.

A

Yeah, it's a relevant question. We've chosen at this point not to use the strong start to change the guidance we're reiterating it and we do we reiterate that with confidence. And then if we – if there's a reason for us to update the guidance as we move along we will, of course, come back and address that to the market. But at this point, we're settling with we're being confident about the guidance.

Q

Perfect. Okay and thank you and that's all from me.

A

Thank you.



**Operator:** There are no more questions at this time. So I hand the conference back to the speakers for any closing comments.

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## Unverified Participant

All right. Let us just double check here if there are any other questions through the chat. No, there are no other questions. So with those words thank you so much for joining the call today. And we look forward to talking to you again in connection with the Q2 report in August.

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