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Raketech Group Holding Plc (RAKE.SE)

Q2 2023 Earnings Call

CORPORATE PARTICIPANTS

Oskar Mühlbach

Chief Executive Officer, Raketech Group Holding Plc

Måns Svalborn

Chief Financial Officer, Raketech Group Holding Plc

OTHER PARTICIPANTS

Rikard Engberg

Analyst, Erik Penser Bank AB

MANAGEMENT DISCUSSION SECTION

Operator: Welcome to the Raketech Q2 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.

Oskar Mühlbach

Chief Executive Officer, Raketech Group Holding Plc

Good morning and welcome to Raketech's report presentation. Måns and I are here to present our Q2 numbers for the year of 2023 followed by Q&A. Once again, welcome and let's start.

And, as always, let's begin with the financial details and highlights, I mean, on a high level. Revenues and EBITDA came in, in line with our previously communicated trading updates. And with revenues totaling €17.6 million, this means Q2 marked yet another all-time high for the group, beating the previous record as said in Q1. Compared to last year, this corresponds to an organic growth of 56%. And just like in Q1, the higher-than-expected revenue levels can primarily be attributed to paid Sub-affiliation, which we called Network, but also to continued solid performance from most other parts with Casumba standing out positively once again.

Our margin came in at 31.1%, which is slightly lower than previous year, but a natural consequence of the Sub-affiliation/Network, which, in itself, is lower in margin, making up a larger portion of totals than before. However, important to keep in mind is that compared to last year, I'm happy to see that EBITDA, in absolute terms, grew with close to 45% to €5.5 million.

In related news, I'm also happy to be able to clearly show that our ability to generate cash has increased after taking over full responsibility for Casinofeber.se, which up until just recently was run as an earn-out. As of March, post earn-out that is, our operational costs relating to Casinofeber has increased, but the cash that we get to keep compensates for this with margin. Måns will talk a little bit more about this in his part of the presentation later on.

On a side note, I want to also mention, for those of you who missed it, that we, as of August, have reinforced the team with Jacob Felländer who will be heading up our Corporate Communication and IR function. I expect him to make our IR function better, more transparent, and our communication more frequent in the future. And speaking about the future, July revenues amounted to €6.9 million once again with Network/Sub-affiliation standing out positively while most other markets stayed stable and strong.

And here is a slide explaining our three main business areas when assessing us, Raketech. It is important to understand how they differ with regards to, for instance, margins, expected volatility, investments requirements, and risk. On your left-hand side, in red, you have our bread and butter, which is Affiliation Marketing. This is essentially when we operate digital assets in various shapes, and sizes, and forms spanning from apps to comparison websites and sports forums. Consumers find us primarily through search engines and volatility between the quarters is relatively limited. To establish a strong digital product, we either need to invest substantially both in terms of money and time. Alternatively, we acquire an already successful product and fine-tune it over time. Margins here are exceptionally strong, up to 85%.

During Q2, we continue to see strong performance from this area, specifically from Casumba, but also from several in-house efforts targeting South America, as well as CasinoGuide targeting Sweden to mention a few examples.

The second business area, Sub-affiliation, is a super interesting area. Being experts in affiliation and commercial optimization, we add value both to the operator by granting access to great affiliates on markets with high demand. And to affiliates, we make sure they get paid as well as provide access to a large portfolio of great commercials from the world's leading operators. This is also a great way for us to monetize on markets or segments where our own presence is not as big.

Within this area, we have what we call the Affiliation Cloud, which essentially is long-term partnerships with other affiliates running digital assets similar to our own while what we call Network is a more opportunistic site targeting primarily affiliates running campaign-based marketing originating primarily from paid sources. And during Q2, the latter part is where we've had the greatest success. The yellow bar diagram in the middle show you just how much this area has grown since last year.

The smallest business area from a revenue perspective is betting tips and advice, which is the blue box on your right-hand side here on the slide. In a nutshell, we provide users with pre-match tips and predictions, which we sell via subscriptions, one-off fees, or win-share, which essentially is the type of performance-based remuneration for when our predictions are good.

As you can see in the graph, this area is by far the smallest area, and development over time has been flat so far, which is somewhat of a disappointment for us. However, this is important. The websites that run this area are some of the biggest websites in our portfolio when it comes to number of monthly users, and this is where we see the biggest potential. And that is to add also Affiliation Marketing to the existing tipster offering, which I will be elaborating a little bit more about on the next slide.

So, here we have what we refer to our strategic growth pillars, which essentially is a simplified way of explaining where we believe the major share of our growth to come from. Starting from the top with flagships, our view on the iGaming affiliation industry is that it is slowly but safely turning towards more quality. It correlates also with operators consolidating legislatures, tightening the rules and competition in the marketing space increasing. Therefore, we focus on fewer but better products now than we did a few years ago.

During Q2, the team did an amazing effort and launched our popular Slotjava asset in three states in the US as well as in Ontario and Canada. And with successful track record from other markets in mind, I'm very excited to see Slotjava helping the group accelerate growth in North America going forward. Casinofeber, our biggest Swedish assets new platform, is currently being tested live with promising results, potentially not something the end user would notice, but this is a big step for us because it will allow us to accelerate growth investments into this popular comparison websites on this so important Swedish market during the second half of this year.

And to give you a bit of taste of what a narrowed focus potentially can lead to in terms of results, CasinoGuide has, since we gave it flagship treatment, started to give it flagship treatment, managed to triple in size and is now neck and neck with Casinofeber in Sweden.

Moving on to the second growth pillar, adding affiliation to our large tipster assets we operate in the US. We are, as I pointed out in previous presentations, a bit behind schedule. It has shown to be trickier than expected to transfer our affiliation knowledge across the Atlantic. But with our New York-based MD in place as of last quarter, things have started to move quickly and we are making progress. During Q2, our US team has worked on implementing global platforms and standards. They put key hires in place as well as started the implementation of a new CRM system, which will be very interesting to follow now that we're entering into the high season of the year.

And last but not least, our software-as-a-service, our iGaming affiliation platform, which we beta launched last year and rolled out broadly during Q1, is taking shape. Operationally, we are delivering according to plan. But Q2 has been a bit slow with regards to new sales, something which we aim to accelerate during the last part of the year with the help of a dedicated sales team, which, as of Q2, is completely disconnected from Raketech.

And with those words, over to Måns and financial details.

Måns Svalborn

Chief Financial Officer, Raketech Group Holding Plc

Thank you, Oskar. We are pleased to see that total revenues in Q2 surpassed those of Q1 and marks yet again a record quarter for Raketech. We've seen growth accelerate through the last three quarters with solid performance from our core assets in Affiliation Marketing as well as through our Sub-affiliation offering, specifically paid initiatives within Network.

Starting with Affiliation Marketing, our core revenue stream represents 59% of revenues in Q2. And we did, as expected, see a somewhat softer quarter compared to last quarter as we entered into a slower season towards the end of the quarter. In line with the previous quarter, Casumba continued to show strength, keeping up the good momentum we saw in Q1. It's also the primary driver compared to last year.

Other highlights was a positive outcome of the efforts we've put into our site for online cricket betting. A large contributor to our significant increase in organic revenue stems from yet another strong quarter for Sub-affiliation, which amount to 36% of total revenues. This area continues to perform well. And as we've highlighted before, it enables us to quickly and efficiently enter into new markets, and consequently we've continued to grow our LATAM revenues within this area, but also increased sales from the Nordics.

Betting tips and subscription was, as expected, lower in Q2 as major sports events generally take a pause over the summer months. Compared to last year, we're essentially in line, but revenues are somewhat impacted by currency effect. And similar to previous year, we expect activity to pick up in September as NFL kicks off.

As for the regional split and starting with the Nordics, this region is normally affected by seasonality towards the end of Q2. And we did see somewhat of a decline in Affiliation Marketing, specifically for Sweden, as activity slowed down. On the other hand, we saw quite a substantial growth within Sub-affiliation, specifically in the Nordics, which pushed revenues from this region to €7.2 million, representing 41% of total revenues in Q2.

Similar to Q1, we saw a significant share of revenues from Rest of World. And also, similar to Q1, Casumba continued to perform well, in line with the last quarter. Pushing the needle this time around however was positive growth in LATAM within Sub-affiliation as well as I mentioned before, our online cricket betting site showing positive results.

The vertical split on the right-hand side shows casino revenues growing from last year and also Q versus Q and amounts to 81% of total revenues in Q2. 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 quarter as it depends on which markets and publisher grow in each and respective quarter. In Q2, specifically, the share of casino revenues increased in relative terms.

As Oskar mentioned in the beginning of her (sic) [his] presentation, we saw EBITDA grow in absolute numbers with 44.6% from last year. Worth pointing out is that all growth is also organic growth, which is positive to see. As I covered in the previous slide, we've seen growth both within Affiliation Marketing as well as Sub-affiliation. These two areas have different characteristics when it comes to EBITDA margin with Affiliation Marketing having high margin and Sub-affiliation being a lower margin product. This means that depending on the relative growth for these areas, we have and we'll see a variation in the group's overall EBITDA margin between the quarters, as you can see in the left-hand graph. And specifically for Q2 of this year compared to Q1, we saw increased revenues from Sub-affiliation, which lowered our overall margin, but of course had a positive impact on group profitability.

On the right-hand side, there's an illustration of our net cash flow as we've highlighted it in previous presentations. The final earn-out for Casinofeber was settled in Q1, and we only have minor analysis left to be settled for the previous acquisition of Infinileads for 2023. As an effect of this and essentially with only one significant earn-out left in Casumba, we are seeing net cash flow coming close to EBITDA for the quarter at around €4.8 million. And we expect to see a similar cash generation as we head into Q3 and Q4. Also worth highlighting is that we paid out the first of two installments of the approved dividend in Q2 and the second one is planned for November.

Casumba is our last remaining material earn-out. This has been a very successful acquisition, targeting a high-growth, high-margin market where we paid a low upfront payment and incentivized the founders with an earn-out geared for high growth.

With regards to the majority of the outstanding amount, we do not expect significant revisions from this level simply because of the fact that the calculation period for the majority of earn-out is coming to a close at the end of the year. It's based on an average annual EBIT multiple over 18 months with only 5 months left on the period, which means that further growth over our forecast will have a limited impact on the total amount. The remaining amount that runs up until July 2024 is a profit share structure, which means it's cash flow positive for the group.

Also worth highlighting is that we have flexible payment terms that can be settled in installments up until September 2026. And with our current level of profitability, we can settle the amount with existing predicted cash flow. Having said that, we do also have the option of settling part of earn-out in shares if we so wish. And on a final note, with this being the last material earn-out coupled with the current growth trajectory with regards to our EBITDA, we expect to see high cash conversion and high free cash flow post the earn-out period. Thank you.

Back to you, Oskar.

Oskar Mühlbach

Chief Executive Officer, Raketech Group Holding Plc

All right. Thank you, Måns.

We've come to the end of the presentation and it's time for a quick recap. We had a strong quarter with yet another revenue record of €17.6 million corresponding to a 56% organic growth. EBITDA, in absolute terms, followed nicely and grew with close to 45% year-over-year, although at lower margins due to Network revenues, representing a proportionally larger share of total. As expected, cash flow increased, thanks to Casinofeber now being run internally, which of course is great to see.

And with regards to milestones, we made a few key hires both here in Europe but also in this so important US market while also taking one of our flagship, Slotjava, to North America. It's a bit too soon for concrete results just yet, but I'm very much looking forward to revisiting this in some time.

Looking ahead, July has started strong with Network/Sub-affiliation once again leading the way coupled with continuously solid performance, I have to say, from most other areas, especially Casumba once again. Worth pointing out is that the Casumba earn-out is soon coming to an end, at least the major part of the earn-out payment. And the closer we get to new years, the less likely it is [ph] for us (00:18:25) to change substantially in terms of size.

And with that said, taking into consideration our revised guidance of an EBITDA of €23 million to €25 million for 2023, I'm comfortable with the total consideration and very much looking forward to enjoying the full effect of the cash flows post earn-out in a not too far away future. And speaking about updated guidance for the year, we have increased it in all dimensions from revenue and EBITDA expectations to projected cash flow as you can see here on the slide. And with that said, we have a solid position and we're heading into high season, so exciting times ahead.

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.

Rikard Engberg

Analyst, Erik Penser Bank AB

Q

Good morning, guys.

Måns Svalborn

Chief Financial Officer, Raketech Group Holding Plc

A

Good morning.

Rikard Engberg

Analyst, Erik Penser Bank AB

Q

So, my question is regarding Affiliation Cloud. Can you please describe as to how it has developed during the year and quarter, and what are you looking at during the second half of the year now?

Oskar Mühlbach

Chief Executive Officer, Raketech Group Holding Plc

A

Yes. Good morning, Rikard. I know that – this is a good question. We don't talk about Affiliation Cloud just yet. Singled out, we included in the Sub-affiliation business area. However, to share maybe some light, we did mention in the report that we've had a somewhat slower growth periods during Q2 for Affiliation Cloud specifically. But we're aiming at accelerating the sales efforts here during the second half of the year with a dedicated team. So, [indiscernible] (00:20:43) but it's going according to plan and we haven't changed any long-term ambitions.

Rikard Engberg

Analyst, Erik Penser Bank AB

Q

Good. Thanks. And follow-up question, if I may. Given that the Affiliation Network have been so strong, is it possible to see that, going forward, that the gross margin will remain on these levels or even decrease a bit?

Måns Svalborn

Chief Financial Officer, Raketech Group Holding Plc

A

Yeah, you're correct we did see a lower gross margin. And as you rightly point out, it relates primarily to the larger share of Network revenues. And I can't really guide you further than that, but perhaps just repeat that July again was obviously a strong revenue month again and largely driven by Sub-affiliation as well as see similar effects in July. But further than that, I can't really guide.

Rikard Engberg

Analyst, Erik Penser Bank AB

Q

Okay. Thank you. That was all for me.

Operator: Thank you very much. [Operator Instructions] There are no more questions at this time, so I hand the conference back to the speakers for any written questions and closing comments.

Oskar Mühlbach

Chief Executive Officer, Raketech Group Holding Plc

A

All right. I think we do have a few questions here in the chat. There's a question about the Rest of the World becoming a very large segment for us and if we have considered to break out any regions going forward.

And as of now, we're happy with the way we report these numbers. We have occasionally chosen to talk specifically more about specific countries within those regions. We've done that occasionally from a competitive perspective. We don't want to talk about this every quarter. But, yeah, so we're pretty happy with the way we reported at the moment.

Måns Svalborn

Chief Financial Officer, Raketech Group Holding Plc

A

Yeah. And then there is a question. Revshare is trending down. Is this an effect of Sub-affiliation growing or is there any other reason for it? And also, is Sub-affiliation only casino.

And we're not really seeing that Revshare is trending down. So, it is, as the question mentioned here as well, it's primarily an effect of Sub-affiliation growing as a total share of revenues and Sub-affiliation is predominantly CPA-driven at the moment with an element of Revshare but predominantly CPA. And if Sub-affiliation is only casino, no, it's not. But during this quarter, it is again predominantly casino, but there is a sport element in the revenues as well. But this can change a little bit over time, as I mentioned in the presentation.

Oskar Mühlbach

Chief Executive Officer, Raketech Group Holding Plc

Yeah. Thank you, Måns. I think that was the last question for the day. So, with those words, thank you, everyone, for joining the call today, and we look forward to talking to you again in connection with the Q3 report in November.

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