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# Raketech Group Holding Plc (RAKE.SE)

Q3 2023 Earnings Call

## CORPORATE PARTICIPANTS

### Oskar Mühlbach

*Chief Executive Officer, Raketech Group Holding Plc*

### Måns Svalborn

*Chief Financial Officer, Raketech Group Holding Plc*

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## OTHER PARTICIPANTS

### Rikard Engberg

*Analyst, Erik Penser Bank AB*

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## MANAGEMENT DISCUSSION SECTION

**Operator:** Welcome to the Raketech Q3 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, everyone. Welcome to Raketech's Report Presentation. Måns and I are here to present our Q3 numbers for the year of 2023, followed by Q&A. Once again, welcome and let's start.

On this slide, you can see our financial highlights and top KPIs from the quarter. And considering our previously increased full year financial guidance, I'm happy to be able to conclude that we delivered well in line with this. Total revenues amounted to €21.5 million, which is yet another all-time high for the group. Compared to last year, this corresponds to a growth of close to 66%, all of it being true organic. And considering that the previous year also offered strong revenue numbers, it is satisfying to see that we managed to grow quarter-over-quarter with 22.1%, previous quarter that is.

Year-over-year EBITDA grew with 16.5% to €5.6 million in absolute terms, which by the way is the blue number in the bottom-right corner of this slide. As we've talked about before, the EBITDA margin in percentage is expected to vary between quarters and years depending on our geographical distribution, but even more so potentially relating to the product mix from time to time. Our job is in other words to find the best possible mix, ensuring a sustainable balance between growth, cash flows and risk overtime, which, in the short perspective, means that margin as a percentage count and is likely to vary slightly, while we, of course, aim for EBITDA and cash flows in absolute terms, to be more predictable.

The final quarter of the year, Q4, that is has started strong with October revenues amounting to €7.7 million with continuously strong performance from paid sub-affiliation as the primary driver. With this in mind, we feel comfortable reiterating our previously increased full-year guidance on EBITDA and cash flow. Revenues are, however, likely to come in slightly higher than we've guided for before.

And on this slide, as you know, Raketech is a well-diversified company with three main business areas, all of which have slightly different profiles when it comes to risk, margin, seasonality and volatility. As a matter of fact, we consider this to be one of our biggest strengths as we are well-positioned to leverage from many aspects of the dynamic and growing global iGaming market, while also diversifying our risk profile. It does, however, make it slightly more challenging to understand how we're doing, which is also why I would now spend a minute trying to explain this.

Affiliation marketing to your left is essentially how we started and also our bread and butter. In a nutshell, we operate our own digital assets and they span from comparison websites to sports forums or apps, helping the consumer to find where to watch or stream the next match as a few examples. These digital assets also contain various sports or casino promotions and this is essentially how we make our money.

Margins within this segment or within this area is typically between 70% and 80%. On pre-regulated fast growing markets, the margin is in the higher end of this interval, but naturally with expected higher volatility. While on mature markets, regulated markets in the lower margin interval, however, typically with more predictable revenues.

During Q3, the strong momentum for Casumba continued, even though revenues slowed down slightly from Q2. The Nordics were softer for us, primarily due to reduced investment appetite from operators in Norway and Finland, but also from slightly less traffic to some of our largest Swedish domains.

Jumping across the slides, the blue segment on your very far right, we have betting tips and advice. This is a business area in which we offer users pre-match betting insights, statistics and more. Currently, we offer this only in the US or to the US market. And on this market, seasonality plays a bigger role than on any other market we operate in, which means that we do expect these revenues to vary more between the quarters compared to other markets. Margins within this area naturally therefore varies a bit between the quarters, but in the long-term, we aim for these to be around 30%.

Just as expected, activity did pick up in September thanks to seasonality. However, this pickup did not fully compensate for slower than expected start of the quarter for this segment. Q3 totaled just shy of €1 million, which is less than last year same quarter. And with this in mind, the US organization is in parallel to, of course, maximizing high season, focusing on operational and organization optimization and control to ensure future investments into this market generate good returns.

Lastly, moving over to the yellow segment in the middle of the slides, we have sub-affiliation business area. This area includes both network and AffiliationCloud revenues, which simply put is paid versus organic sub-affiliation. And sub-affiliation is by nature lower in margin compared to affiliation marketing. However, with significantly lower financial risk compared to affiliation marketing, where we on the contrary, have high margins, however, first, after several years of investments through product development or acquisitions.

During Q3, AffiliationCloud managed to more than double the number of active sub-affiliates. And I'm excited to know that we have more waiting to join. However, the largest financial success during Q3 within this area is the paid sub-affiliation, also often referred to as network revenues. Much thanks to this, sub-affiliation grew with 264% year-over-year and revenues totaled €11.1 million, which for the first time represents more than half of group total.

And before I hand over to Måns, I want to just quickly revisit our growth plan. And to simplify, our current growth plan has three cornerstones: one, increased investments into flagships; two, adding affiliation to our US properties; and three, rolling out AffiliationCloud globally.

And with regards to flagships, we continue to concentrate our investments towards fewer but better products. And in the first section on this slide, I've selected a few examples of activities or initiatives that we executed during the quarter to showcase some examples of this. And as you can see, our flagship initiatives span from tailor-made cricket marketing packages in some parts of the world to local radio ads in Sweden to a unique AI-powered betting tips product in the US.

Furthermore, as we've talked about before, it has taken us a longer time than initially expected to roll out our affiliation efforts in the US, essentially this relates to challenges filling key roles as well as complexities rolling out our global infrastructure. Summarizing progress within these three growth pillars, it's fair to say that this pillar is a little bit behind the plan.

During Q3, I'm therefore happy to be able to sum up several initiatives as delivered. The US organization now have the key individuals they need to be able to prioritize efficiency and execution on the business plan. And our global infrastructure team has taken over responsibility for most of the critical systems.

For AffiliationCloud in Q3 was, as I mentioned before, an intensive quarter with stable and strong growth in line with plan. While our paid sub-affiliation, also referred to as network, broke new records. For AffiliationCloud, our SaaS solution, we are currently seeing and experiencing an increased demand also from new markets and we are therefore working intensively to ramp up organization, technical infrastructure and commercials to be able to cater for this demand.

And worth pointing out in this context is perhaps that the US is one of the markets from where we've noticed high demand, both from operators and affiliates, and we are therefore naturally also prioritizing this.

With those words, over to Måns and the financial details.

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## Måns Svalborn

*Chief Financial Officer, Raketech Group Holding Plc*

Thank you.

We are pleased to see that total revenues are up an all-time high yet again for the fifth consecutive quarter in a row. Similar to Q2, we saw significant growth for sub-affiliation, which in Q3 surpassed both affiliation marketing, and betting tips and subscription revenues combined, and now represents 52% of total revenues.

The significant growth is an effect of several factors. We have increased our sales efforts and have such managed to onboard several new partners. Predominantly, these are paid sub-affiliation partners that have, for the last few months, been very successful in certain markets such as LatAm and the Nordics. And our partners' high performance and Raketech's operational infrastructure and extensive commercial network has proven, so far, to be a successful combination.

At last point for this area, it is by its nature, somewhat opportunistic, and considering it is predominantly paid sub-affiliation, it's slightly more difficult to project and estimate future pace of growth. Having said that, however, Q4 is, as indicated earlier by Oskar, off to a flying start.

Affiliation marketing, our core business area, is up by 10% from last year, primarily through Casumba and decreased slightly from Q2, which is as expected due to seasonality. We did also see a bit of a softer performance in Sweden, as Oskar mentioned, due to decreased appetite from operators as well as somewhat site-specific performance related effects.

As for the regional split, I'm starting with the Nordics. The substantial growth is predominantly driven by sub-affiliation, which pushed revenues from this region to SEK 10 million, representing 47% of total revenues in Q3. Similar to previous quarters, we saw a significant share of revenues from rest of the world. And also similar to Q1 and Q2, Casumba continued to perform well. Additionally, we saw continued positive growth in LatAm within sub-affiliation.

Generally speaking, we have also been somewhat impacted by a softer Swedish krone and USD versus the euro, which has dampened growth slightly during the quarter versus last year, however, not materially. The vertical split on the right-hand side shows casino revenues growing from last year and also Q versus Q, and amounts to 86% of total revenues in Q3. One point to make here is that sub-affiliation revenues, specifically network sales and its contribution to either sport or casino revenue, will vary between the quarters as it depends on which markets and publisher grow in each and respective quarter. And in the last couple of quarters, specifically, the share of casino revenues have increased in relative terms.

EBITDA increased significantly in absolute numbers with 16.5% from last year and just inched above last quarter, worth pointing out is that all growth is also organic growth, which is positive to see. Overall, the margin is slower in Q3. This is as expected and, as we have highlighted previously, an effect of sub-affiliation increasing its share of total revenues to the group, now at 52%. As Oskar pointed out, this area has a lower financial risk profile, while we are happy to see, right now, on these levels with relatively strong margins at around 15% represents a reasonable large contributor to EBITDA in absolute terms.

On the right-hand side, there's an illustration of our free cash flow. As we have highlighted in previous presentations, we are expecting to see a full-year free cash flow at around €13 million to €15 million, which is a substantial increase from last year. Q3 specifically shows strong cash flow, but only around 60% of EBITDA, which simply is an effect of timing differences in trade receivables related to the increased sales in sub-affiliation. This we expect to catch up in Q4 delivering free cash flow within our full-year guidance.

One last point on this slide. Despite record cash flow and EBITDA, our net profit and earnings per share decreased during the quarter. This is simply an effect of increased amortization and finance costs related to adjustments to intangible assets following revised earnouts related to Casumba. These items are non-cash affecting items and do not impact our free cash flow and are more of technical accounting effects than anything else.

And on the topic of Casumba, let's move to the next slide. Casumba is our last remaining material earnout. 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.

There are three points with this slide. Firstly, we do not expect significant revisions from these levels simply because of the fact do not expect significant provisions from these levels, simply because of the fact that the calculation period for the majority of earnout is coming to a close at the end of this year. The remaining smaller amount that rounds up until July 2024 is a profit share structure which means it's cash flow positive for the group.

Secondly, and this refers to the diagram on the slide, this is an illustration of our current operating cash flow represented by the line on the top, and this in relation to our estimated earn out cash flows. And as illustrated by the arrows, there's quite a lot of headroom in relation to current levels of operating cash flow which means that we have financial flexibility in the business as we move along. The payment terms are flexible and can be settled in instalments up until September 2026. Also worth mentioning is that we do have the option of settling part of the earnout in shares if we so wish.

Third point is that we're very happy that the founders are committed to staying on board with overseeing this portfolio of sites, but perhaps more importantly assist Raketech in other growth projects.

Thank you and back to you, Oskar.

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## Oskar Mühlbach

*Chief Executive Officer, Raketech Group Holding Plc*

Thank you, Måns. Let's recap quickly. Revenues grew with 66% to €21.5 million, which is a new all-time high for the group, while EBITDA grew with 16.5% to €5.6 million. Casumba continued to show strength while the US advisory business underperformed. The biggest standout was our sub-affiliation business area, which delivered growth of 264%, primarily thanks to exceptionally strong numbers from paid sub-affiliation, also referred to as Network.

As an example of an initiative that originates from our increased flagship product focus, we rolled out our first ever radio ad campaign in Sweden, and I'm looking very much forward analyzing the results from this early next year and so far, it looks very promising.

And looking ahead, October has started strong with paid sub-affiliation continuing its positive momentum. Also I feel confident that we have found a solid way forward when it comes to Casumba, both from an earnout perspective as well as an operational perspective. And I'm very much looking forward to continuing to work together with the talented founders and the team going forward.

Finally, I wish to reiterate our increased full-year guidance in which we are targeting an EBITDA within €23 million to €25 million and a cash flow of €13 million to €15 million. Taking the strong revenue growth from Sub-affiliation into consideration, it is however, likely that we land above the indicated interval when it comes to revenues.

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.

**Rikard Engberg**

*Analyst, Erik Penser Bank AB*

Q

Good morning, guys. So, a couple of questions, if I may. My first question is regarding AffiliationCloud and see quite hefty increase in clients during the quarter. From what levels are these increases? Hello?

**Oskar Mühlbach**

*Chief Executive Officer, Raketech Group Holding Plc*

A

Good morning. Good morning, Rikard. Sorry. Would you be able to specify the AffiliationCloud specifically again? I now understand the question. So we haven't guided – as you might remember, we didn't disclose the exact numbers on the AffiliationCloud revenues last quarter. So I'm, unfortunately, not able to do that. I think it would be worth revisiting the case in full sometime early next year. But, at this point, we don't disclose the exact numbers.

**Rikard Engberg**

*Analyst, Erik Penser Bank AB*

Q

Okay. Great. And my next question is regarding the trading update and the year-on-year growth. Is that mainly driven by sub-affiliation?

**Måns Svalborn**

*Chief Financial Officer, Raketech Group Holding Plc*

A

Sorry. I muted there, Oskar. We haven't disclosed that particular number, the split versus sub-affiliation and affiliation marketing in October. But what we can say is that it's the predominantly driver of the growth definitely in October. So, sort of the similar picture that we saw towards the end of Q3 has continued into the beginning of Q4.

**Rikard Engberg**

*Analyst, Erik Penser Bank AB*

Q

Okay. Great. Those were the questions for me.

**Oskar Mühlbach**

*Chief Executive Officer, Raketech Group Holding Plc*

A

Thank you, Rikard.

**Måns Svalborn**

*Chief Financial Officer, Raketech Group Holding Plc*

A

Thank you.

**Rikard Engberg**

*Analyst, Erik Penser Bank AB*

Q

Thank you.

**Operator:** [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*

All right. Let's have a look at the chat here, Måns.

A

**Måns Svalborn**

*Chief Financial Officer, Raketech Group Holding Plc*

Yeah. There's one question. Even though you had a 22% substantial revenue growth, you had sequential decline in gross result. Can you explain more the dynamics why it's declining? Are there any one-offs?

A

And there are not any particular one-offs. I covered this in presentation a little bit. So it relates to increased amortization on intangible assets and somewhat increased finance cost, as well, related to the outstanding earnout. These are non-cash affecting item and they stemmed from the increase in intangible assets we have specifically for Casumba. So important point to bear with it's our non-cash affecting items.

**Oskar Mühlbach**

*Chief Executive Officer, Raketech Group Holding Plc*

Yes, and we have a pretty prudent approach towards valuing the intangible assets and the quite steep depreciation of the intangible assets over time. So that is essentially what you're referring to, which is a prudent approach.

A

And the margin in sub-affiliation, got a question and I think you mentioned that, Måns, at around 15%. That was one question.

Let's see, there's a question about OpEx. Once the consumer earnout is fully settled, so there is a mathematical milestone or gateway, if you will, at the end of this year, that does not mean that the full earnout period is over, that this will be happening mid-next year and there would naturally be detailed updates once we reach that point. But, yes, there will be slight adjustments on this when we take over the full responsibility, but that is at the later stage.

**Måns Svalborn**

*Chief Financial Officer, Raketech Group Holding Plc*

Yeah. Then there's follow-up question on the amortization in Q3 and if this will be repeated in Q4 or Q1?

A

We'll sort of follow the same pattern we've seen in Q3 and Q4 and Q1 as well, and that, again, relates to the increase in intangible assets we saw during the last couple of quarters. They should, however, level out in the next couple of quarters and then, obviously, natural as we amortize more and more, they should come down in the mid-term looking forward.

**Oskar Mühlbach**

*Chief Executive Officer, Raketech Group Holding Plc*

All right. So I think that ends the presentation with those words, unless you have anything else there, Måns.

A



## Måns Svalborn

*Chief Financial Officer, Raketech Group Holding Plc*

No, I think that was it for today.

A

## Oskar Mühlbach

*Chief Executive Officer, Raketech Group Holding Plc*

Yeah. Perfect. So thank you, everyone, for joining the call. And we look forward to talking to you again in connection with the Q4 and end of the year report in February next year.

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