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Raketech Group Holding Plc (RAKE.SE)

Q4 2023 Earnings Call

CORPORATE PARTICIPANTS

Johan Per Carl Svensson

Co-Founder & Acting Chief Executive Officer, Raketech Group Holding Plc

Måns Svalborn

Chief Financial Officer, Raketech Group Holding Plc

OTHER PARTICIPANTS

Hjalmar Ahlberg

Analyst, Redeye AB

Rikard Engberg

Analyst, Carnegie Investment Bank AB

MANAGEMENT DISCUSSION SECTION

Operator: Welcome to the Raketech Q4 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, Acting CEO, Johan Svensson; and CFO Måns Svalborn. Please go ahead.

Johan Per Carl Svensson

Co-Founder & Acting Chief Executive Officer, Raketech Group Holding Plc

Good morning and welcome. My name is Johan Svensson and I'm the Acting CEO of Raketech. Today, CFO Måns Svalborn and I are here to present Raketech's Q4 2023 and end of year report. For those who don't know me, I'm one of the Co-Founders of Raketech and was the CEO prior to the IPO in 2018. After IPO, I have continued to work full-time with Raketech in different roles. The last three years, I've been CCO. I'm excited and looking forward to this new road.

Moving slide, we start with our Q4 financials. To begin with, we are pleased to conclude that we have present and end of year in line with our previous guidance. Raketech delivered €22.8 million in revenues in Q4, representing an organic growth of 45.3%. Sub-affiliation continued to be a strong contributor to our organic growth. Full year's revenues amounted to €77.7 million and the EBITDA in Q4 landed at €6 million and for the full year at €23.6 million.

Now, let's look at our different business areas and I will change slide. We will start with Affiliation Marketing. Affiliation Marketing, our in-house owned asset, slowed down somewhat during Q4 with revenues of €9.7 million compared to €10.3 million in Q4 2022. This is primarily an effect of softer performing casino assets in Sweden together with a weaker Swedish krona, which have had a negative impact on our Swedish revenue. Furthermore,

the fourth quarter 2022 had a positive impact from the FIFA World Cup. Our other largest assets outside Sweden including [ph] our (02:45) Casumba assets are performing according to plan.

Sub-affiliation, sub-affiliation revenue grow from €3.5 million in Q4 2022 to €11.4 million in Q4 2023. Fantastic growth, but lower margin compared to Affiliation Marketing. Sub-affiliation consists of two products: Raketech Network and Affiliation Cloud. Raketech Network, which is a platform for paid traffic publishers, continued to deliver significant growth during the quarter. Our in-house developed platform, Affiliation Cloud, focusing on organic traffic, grow quarter by quarter but still on low levels compared to network.

Moving on to betting tips and subscription, our US Tipster business picked up during the fourth quarter, but was slightly behind the last quarter of 2022. We still haven't seen any positive effects from the organizational changes we implemented during the quarter. The initial strategy to add Affiliation Marketing on our Tipster assets have not delivered in line with expectations, but we have started to see some positive indications during the fourth quarter.

Going to the next slide, our plan for 2024, when it comes to Affiliation Marketing, we will review our strategy to secure long-term organic growth. This strategy exercise will include an analysis of our operating model, what markets to prioritize, and how we best allocate the capital. Furthermore, we have started with the performance exercise of entire product portfolio to optimize cash flow and to improve operational efficiency.

The plan for Sub-affiliation is to continue to build on the good momentum within the Network business. We will expand to new markets, including US and we will onboard more publishers.

The development of the Affiliation Cloud platform has taken longer time than expected. However, we continue to see very strong demand for the product. The focus during the first half of year will be to continue to develop the platform and then to start onboarding more partners and increase sales volume during the second half of year. The previous communicated revenue goal of €10 million in run rate by end of 2024 is still achievable but has been pushed forward to first half of 2025.

Betting tips and subscription, we have secured key competence in a US organization to focus on digitizing our US Tipster business, with the goal of improving our online promotions and sales. To capitalize on the efficiencies from these initiatives, we have restructured and rightsized the US organization.

Additionally, in Q4 2023, we saw positive indications from our targeted affiliate campaigns on the US Tipster assets. We will scale up these campaigns in 2024 to add more revenue streams to the Tipster assets.

Now, over to our CFO, Måns Svalborn.

Måns Svalborn

Chief Financial Officer, Raketech Group Holding Plc

Thank you, Johan. We are pleased to see that total revenues are at an all-time high yet again for the sixth consecutive quarter in a row. On the left-hand side and similar to Q3, we saw significant growth for Sub-affiliation, which represents 50% of total revenues. The revenue growth is primarily driven by our paid Sub-affiliation area network where we saw continued good traction from existing and new partners.

The growth here is an effect of increased sales efforts where our partners have seen good success from Raketech's operational infrastructure and extensive commercial network. Also similar to Q3, we saw continued strong performance in LatAm and the Nordics.

Affiliation Marketing, our core business area, was up from Q3 as expected, but we did see somewhat of a softer development versus Q4 last year. This relates primarily to our main assets in Sweden. We do see somewhat of a decreased activity from operators, which can vary over time as well as a weaker SEK that impacts revenue, but also site-specific performance-related effects, something that Johan highlighted and that we are addressing at the moment. Our other larger assets in other markets, including Casumba, show stable performance.

On the right-hand side and a quick note on our revenue mix for revenue share CPA and flat fees, in absolute terms, we are growing revenue share, which is good. And with regards to the significant increase of CPA, this relates primarily to our Sub-affiliation area, which predominantly is CPA-driven. Worth mentioning, though, is that we are pushing rev share components even within this area.

As for the regional split and starting with the Nordics, the substantial growth is predominantly driven by Sub-affiliation, which pushed revenues in this region to €10.6 million, which is 46% of total revenues in Q4. Similar to previous quarters, we saw a significant share of revenues from Rest of World, again, driven by Sub-affiliation and also in line with previous quarters. Casumba continued to perform well.

The vertical splits on the right-hand side shows both Casino and Sport revenues growing from last year, with 81% of total revenues in Q4 relating to Casino. The largest shifts we have seen within the verticals is driven by the significant growth again in Sub-affiliation. As I've mentioned before, 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.

EBITDA is up in Q4 at €6 million versus €5.6 million in Q3. This is as expected with Q4 being high season, both from a Casino perspective, but also US sports. We are, as we have mentioned, slightly down from last year.

Very much in line with Q3, the overall margin is lower. This is as expected as well and as we have highlighted previously, an effect of Sub-affiliation increasing its share of total revenues to the group now at 50%. This area has lower financial risk and adds a healthy mix to our business. The gross margin was at around 15% in the quarter, and as such, we're happy to see that it represents a reasonably large contributor to EBITDA in absolute terms for the group.

On the right-hand side, there's an illustration of our free cash flow. Free cash flow for the full year did come in, in line with our guidance, up €14 million. This is a substantial increase from last year and in Q4, we're getting close to having free cash on par with EBITDA. The difference is primarily an effect of an earn-out payment we settled during the quarter as well as CapEx related to development of Affiliation Cloud and interest expense paid on our facility with Avida. But again, it's good to see a high level of cash coming in.

As a last point on this slide and I highlighted this last quarter as well, despite a year of record cash flow and EBITDA, our net profit and EPS decreased in the year and also the quarter. This is simply an effect of increased amortization and finance costs related to adjustments to our intangible assets relating primarily to Casumba. These items are non-cash affecting items and do not impact our free cash flow as illustrated on this slide. And it's more of a technical accounting effect more than anything else.

Casumba is our last remaining material earn-out. It's been a very successful acquisition for us with high margin and high growth. I presented this slide last quarter as well and it's very similar. We highlighted that we would not expect to see any significant revisions of the earn-out in the last quarter, which we did not. And we can now conclude that out of the €46 million in total, €41 million is now fixed. The remaining smaller amount that runs up until July 2024 is a profit share structure, which means it's cash flow positive for the group.

On the left-hand side, there's an illustration of our current free cash flow before estimated upcoming earn-out settlements. This is represented by the dotted line on top and as illustrated by the arrows, there's quite a lot of headroom in relation to current levels of 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 installments up until September 2026.

Also worth mentioning is that we do have the option of settling part of the earn-out in shares if we so wish. And since there is a lot of flexibility with regards to timing on settlement but also flexibility on timing for the option of settling with shares, this will be an evaluation by the board as we progress, depending on what makes best sense from all aspects considered.

As last point, we're very happy that the founders of Casumba are committed to staying onboard with overseeing the portfolio of sites, but more importantly, assist Raketech in other growth projects. Thank you and over to Johan.

Johan Per Carl Svensson

Co-Founder & Acting Chief Executive Officer, Raketech Group Holding Plc

Thank you, Måns. To conclude, 2023 performance was in line with previous guidance. Going forward, my objectives are clear to deliver long-term organic growth and increased profitability via improved operational efficiency and capital allocation. Looking at January, revenues amounted to €7.3 million, with a strong performance from Sub-affiliation.

Guidance for 2024, we have now shared our guidance for 2024 with an estimated EBITDA of €24 million to €26 million and a free cash flow of €22 million to €24 million. This is before the Casumba earn-out of €18.3 million.

With these words, we now open up for Q&A.

QUESTION AND ANSWER SECTION

Operator: [Operator Instructions] The next question comes from Hjalmar Ahlberg from Redeye. Please go ahead.

Hjalmar Ahlberg

Analyst, Redeye AB

Q

Thank you. I'm going to start with a question on the trading update there for January, which looked pretty solid and consistent with the performance in the past few quarters. But can you give any flavor? I mean, you didn't mention Sub-affiliation growth. But anything else impacting there in terms of regional mix or anything that could be worth mentioning?

Måns Svalborn

Chief Financial Officer, Raketech Group Holding Plc

A

Hey, Hjalmar. So, we won't give any more details with regards to the January trading update. It is, again, primarily organically from our perspective driven by the Sub-affiliation but more again from that. We'll have to wait until we release the Q1 report.

Hjalmar Ahlberg

Analyst, Redeye AB

Q

All right. And in terms of your full year guidance for EBITDA, can you give any information on what could, I mean, move you to lower end of the guidance or the higher end of the guidance? What are the moving parts in that range?

Måns Svalborn

Chief Financial Officer, Raketech Group Holding Plc

A

Yeah. That's details we won't go into either, to be honest. What we can say is that we do expect that continued sort of strong contribution from Sub-affiliation. We will be looking, as Johan mentioned, into cost efficiency measures as well and we'll try to be a little bit more focused on investment when it comes to organic growth within Affiliation Marketing. But more than that, we'll have to get back to you with regards to the full year update or guidance.

Hjalmar Ahlberg

Analyst, Redeye AB

Q

All right. And this efficiency program, so to say, are there any specific area where you see upside? I mean, you did mention US there, for example, and [indiscernible] (16:58) I mean, costs for that program or is that mainly no increase in costs for that?

Måns Svalborn

Chief Financial Officer, Raketech Group Holding Plc

A

Well, so this is ongoing, something that we have started now in Q1. The goal, obviously, is to achieve efficiency and primarily perhaps operational efficiency. So when it comes to the numbers and assessment around that, we'll have to get back to you as well a little bit further on down the road.

Hjalmar Ahlberg*Analyst, Redeye AB*

Q

And on US, I mean, you did mention that you continue to work to increase affiliation revenue and you are looking to maybe seeing that in next year given the NFL season. I mean, how confident are you that you will realize this this year or late this year? What are the risk that you want to do [indiscernible] (17:50)?

Johan Per Carl Svensson*Co-Founder & Acting Chief Executive Officer, Raketech Group Holding Plc*

A

Regarding the affiliate revenue in US, no, but we're confident in the new team running this targeted affiliate campaigns. But yeah, the competition is tough in US as in all or large regulated market. But yeah, we're confident in the team.

Hjalmar Ahlberg*Analyst, Redeye AB*

Q

And in terms of revenue mix, I guess you won't guide on that but just if you can give some more flavor maybe on how to view Sub-affiliation variation. I mean, you now have two quarters with pretty stable revenue, I would say, in Sub-affiliation on a high level. What kind of range could we see that drop down like 20%, 30% in a quarter or can you give any information there maybe?

Måns Svalborn*Chief Financial Officer, Raketech Group Holding Plc*

A

No, sorry. No, we won't. It will be – I was anticipating that question, perhaps but it is an area of focus for us. So I can say that much, but the mix, we won't comment on. But it is a focus area for us definitely in the coming years, yeah.

Hjalmar Ahlberg*Analyst, Redeye AB*

Q

Okay. That was all my questions. Thank you.

Johan Per Carl Svensson*Co-Founder & Acting Chief Executive Officer, Raketech Group Holding Plc*

A

Thank you.

Rikard Engberg*Analyst, Carnegie Investment Bank AB*

Q

Good morning, guys. Rikard from Carnegie here.

Operator: The next question comes from Rikard Engberg from Carnegie Investment Bank. Please go ahead.

Rikard Engberg*Analyst, Carnegie Investment Bank AB*

Q

Morning, guys.

Måns Svalborn*Chief Financial Officer, Raketech Group Holding Plc*

A

Morning.

Johan Per Carl Svensson

Co-Founder & Acting Chief Executive Officer, Raketech Group Holding Plc

A

Good morning.

Rikard Engberg

Analyst, Carnegie Investment Bank AB

Q

I have two questions, if I may, and the first one is regarding seasonal effects of year. Do you think that the euros this year will give you a significant uptick in revenue given increased activity within the industry?

Johan Per Carl Svensson

Co-Founder & Acting Chief Executive Officer, Raketech Group Holding Plc

A

Compared to Q2/Q3 last year, euro is...

Rikard Engberg

Analyst, Carnegie Investment Bank AB

Q

Yeah, yeah, exactly.

Johan Per Carl Svensson

Co-Founder & Acting Chief Executive Officer, Raketech Group Holding Plc

A

Yeah, yeah. Yeah. The sports revenue will have a significant boost in general when it's a Euro or World Cup during June and July. So, yeah, we see a revenue boost coming for Europe, yes.

Rikard Engberg

Analyst, Carnegie Investment Bank AB

Q

And also, if you can give some details on Affiliation Cloud, how it's been received by the customers that has signed it during the quarter.

Johan Per Carl Svensson

Co-Founder & Acting Chief Executive Officer, Raketech Group Holding Plc

A

Yeah. Affiliation Cloud, the development of the platform has taken a bit longer than expected. However, we continue to see a very strong demand for the product and we have chosen to not onboarding too many new operators and publishers on the platform until we're – yeah, until we're done with addition of a platform, which we expect to be during the first half of year.

And then during the second half of year, we expect to onboard more partners and increase the sales volumes. And that, we pushed forward previous communicated revenue goal of €10 million in run rate by end of this year till first half of next year.

Rikard Engberg

Analyst, Carnegie Investment Bank AB

Q

Okay, great. That was all for me.

A

Johan Per Carl Svensson

Co-Founder & Acting Chief Executive Officer, Raketech Group Holding Plc

Thank you, Rikard.

Operator: [Operator Instructions] There are no more questions at this time so I hand the conference back to the speakers for any written questions or closing comments.

Johan Per Carl Svensson

Co-Founder & Acting Chief Executive Officer, Raketech Group Holding Plc

Okay. Then we like to thank you all for listening in and we welcome you back for Q1 report in May.

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