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Raketech Group Holding Plc (RAKE.SE)

Q2 2024 Earnings Call

MANAGEMENT DISCUSSION SECTION

Operator: Welcome to the Raketech Q2 2024 Report Presentation. For the first part of the presentation, participants will be in listen-only mode. During the questions-and-answers session, participants are able to ask questions [Operator Instructions] .

Now I will hand the conference over to speakers, CEO, Johan Svensson; and CFO, Måns Svalborn. Please go ahead.

Unverified Participant

Good morning and welcome. My name is Johan Svensson and I'm the CEO of Raketech. Today, CFO, Måns Svalborn and I are here to present Raketech's Q2 2024 report. We will start with our Q2 financials.

Raketech delivered €17 million in revenues in Q2, an organic decrease of 3.7 percentage. EBITDA of €4.4 million, a decrease of 20.3% year-on-year, resulting in €9.4 million in adjusted EBITDA for the first half of the year. Revenues for the month of July were €4.6 million, mainly impacted by weak performance from a lower margin sub-affiliation business. Some of our larger publishers had operational challenges in July, but we expect the revenue to pick up during the rest of the quarter.

Considering the first half of the year and the current trading for July, we can now more accurately forecast our outlook for the full year. This means we are now able to further specify the full year guidance of around €20 million into a range of €17 million to €19 million in adjusted EBITDA. Free cash flow before earnout is estimated to come in just below EBITDA. Our cash flow – our current cash flow gives us the financial flexibility to settle the current environment and ensure long-term growth and value creation.

Now let's look at how our different business areas performed during the second quarter, and we will start with Affiliation Marketing. Affiliation Marketing, our in-house operator assets, had a slower quarter with revenues of €7.6 million, a decline with 25.9% compared to Q2 last year, mainly impacted by continued weak performance from our Casumba assets and softer Sweden casino performance. The traffic situation for Casumba has stabilized in the end of the second quarter, but at lower level compared to the start of the year. We saw a softer performance from our Swedish casino assets [indiscernible] (00:14:17) by our affiliates promoting nonregulated operators towards the Swedish end users. Our sports assets with high portion of returning users performed well during the quarter, resulting in double-digit growth.

Sub-affiliation. Sub-affiliation revenues amounted to €8.2 million, an increase with 29.7% compared to Q2 last year, but a decline in total revenues compared to previous quarter. For the second time, we are now reporting gross profit and we had a 21.3% gross profit margin in Q2.

Betting tips [audio gap] (00:14:58). Our US tipster sites delivered €1.1 million in revenue during Q2, a 15.9% increase compared to Q2 last year. We have during July divested the manual advisory business. Later on in this presentation, I will give you more details around the divestment of advisory business and our remaining betting tips and subscription business.

Now I will give you a more detailed update about each business area. Starting with Affiliation Marketing, our in-house owned and operated assets, the last part of the Casumba earnout was completed in July. Måns will share an update on his section about the final amount of it just on the earnout. The core Casumba team, including the founders, are intact. Following the Google core update which affected the Casumba assets, we quickly mobilized internal resources and made a large business audit of all affected assets. The audit led to several actions of improved content focused on a broader audience, tech improvements, on-page and off-page SEO, and overall a better user experience. The traffic [indiscernible] (00:16:17) the end of the quarter but at lower levels than before.

A strategic important focus for us is to lower our SEO dependency by increasing CRM activities. We are collecting data from our users when they visit our websites and products. We then use this data by sending them customized offers. An example of it is when a new operator is launched. The purpose of these activities is to increase the value of the users and to be able to convert them to our partners when they are not actively visiting our products.

Our internal sports assets had a strong quarter with double-digit growth driven by performance improvements, new content, and additional features, plus new types of campaigns. UEFA Euro was a good event for our sports sales, and we have continued to create similar sports packages for upcoming sports events such as Premier League and the local Nordic leagues.

Moving on to Sub-affiliation. Our Sub-affiliation saw year-on-year organic growth in the second quarter for both Raketech Network and AffiliationCloud. Some of our top publishers had operational challenges which led to a small decrease compared to the previous quarter. We launched our first full exclusive partnership. The new Swedish operator Spelklubben gave us the trust to run their entire affiliate acquisition. This means that all affiliates who want to promote the brand need to sign up on AffiliationCloud where we have a mark-up on all referred players to the brand.

We have made similar partnerships in the past including the deal with [indiscernible] (00:18:02), but this deal with Spelklubben was the first time that an operator appointed us to run their affiliate – their full affiliation acquisition. These types of partnerships are strategic important for us [indiscernible] (00:18:17) we have more operators to establish similar exclusive agreements. In March, we successfully launched our sub-affiliation business in the US when North Carolina opened up for sports betting. During the second quarter, we have developed the processes and added more operators to our offering. We expect to see an increase in revenues for the upcoming football season.

Betting tips and subscription. In Q2, we finalized the strategic review of the US business, which resulted in a decision to divest our noncore manual high touch tipster advisory operations. The advisory business was not aligned with our strategic vision and its operations demands outweighed its performance. In July, we successfully sold our tipster advisory business for \$2.25 million, and we also secured an exclusive lead generation deal valued \$250,000 over the next 12 months. This transaction also included a onetime noncash impairment charge of €10 million. With this divestment, we are fully focused on enhancing our US flagship assets to drive online conversions of paid picks and predictions, and to increase our affiliation revenue on these assets. We are confident that this strategic focus will deliver positive outcomes.

Our US flagship assets, Winners and Whiners, Stat Salt, and Picks and Parlays, continued to run strongly, generating more than 50 million sessions annually, with users spending several minutes on each websites per visit. Maximizing the growth opportunity on this platform is paramount.

And now, over to CFO, Måns Svalborn.

Unverified Participant

Thank you, Johan. We saw total revenues of €17 million, which was, as Johan highlighted, a marginal decrease of around 4% from last year. Sub-affiliation was up from last year, but the increase [audio gap] (00:20:39) decline in Affiliation Marketing. Sub-affiliation represents approximately 45% of total revenues in Q2 and increased with 30% from last year. We did, however, see a sequential decrease from Q1 of this year, which as Johan [audio gap] (00:20:57) operational limitations for specifically our network publishers. But we expect these revenues to pick up through H2.

Affiliation Marketing decreased from last year, driven primarily by a weaker result from the Casumba assets as we highlighted already in Q1. We have seen a stabilization of performance, but they are at the lower levels compared to last year and previous quarter. Sweden saw a modest decline and our other larger assets in other markets showed stable to positive performance. Worth highlighting again was the positive effects of our high traffic sports assets, driven by a dedicated push for these assets but also the UEFA Euro and IPL.

On the right-hand side and a quick note on our revenue mix for revenue share, CPA, and flat fees, the development [indiscernible] (00:21:57) overall revenue development. For clarity, I will mention that Sub-affiliation is dominantly CPA-driven and it's the main reason for any variations between the quarters. We are however seeing an increasing amount of rev share within Sub-affiliation, which is positive to see.

As for the regional split and starting with the Nordics, as I mentioned on the previous slide, Sweden saw a modest decline in Q2 versus Q1 of this year. It's to some extent performance-related but also through increased competition. Importantly, Q2 reflects a seasonally low quarter, and specifically for the Nordics. Other regions in the Nordics are stable to growing. Similar to previous quarters, the main variations within rest of the world relates to Casumba and Sub-affiliation. The decrease compared to last year is a reflection of the lower performance in Casumba.

US saw a slight increase from last year, positively impacted by the launch of the Sub-affiliation in the US, but also positive effects from affiliation revenues from our tipster assets as well as increased revenues from our online digital subscription platform on these assets.

The vertical split on the right-hand side, I will make one point. As highlighted before, we did see improved performance from the high traffic sports sites during the quarter, an effect of the dedicated efforts but also again driven by increased sports activity. This positive development was to some extent offset by lower sports revenues within Sub-affiliation compared to last year. These variations are to be expected within Sub-affiliation as it depends on which region and vertical our publishers focuses their efforts.

EBITDA amounted to €4.4 million, mainly impacted by the lower performance for Casumba compared to last year. This was somewhat positively offset by continued strong contribution to EBITDA for Sub-affiliation and with a gross profit margin within this area very much in line with the last quarter at around 23%. Additionally, we see somewhat of a positive impact from the initiated cost saving efforts we highlighted in the Q1 report. These initiatives will continue as we progress in the year.

On the right-hand side, free cash flow is lower than reported EBITDA. This relates to timing effects and is expected between quarters and it's an effect of when we settle payments to publishers within Sub-affiliation, but also related to timing of settlements from operators. And we expect this to catch up during H2.

As Johan mentioned, the last part of the Casumba earnout was finalized at the end of July, meaning the final amount is now essentially fully fixed. For the next 12 months, we have upcoming earnouts to be settled at about €12 million in cash. The remaining €20 million, and I mentioned this in the previous quarter as well, can be settled at any point in time up until September 2026, meaning there is a lot of financial flexibility for us. Another point to make here is that the option to settle part of their amount in shares is also at our own full discretion, adding even more flexibility.

So in conclusion, given our current cash flow estimate for the year, our free cash flow is well above upcoming earnout settlements. Thank you, and back to Johan.

Unverified Participant

Thank you, Måns. To conclude, Affiliation Marketing, I would like to emphasize our dedication to turning around the assets that lost rankings on traffic in the latest Google core update. These assets have now stabilized but on lower levels compared to before. During the quarter, we have proven that parts of our product portfolio, especially [audio gap] (00:26:19), showed good organic growth. EBIT increase from these products is not on par with the larger products' worth of traffic and revenue from the latest Google updates.

Sub-affiliation, as mentioned before, first full exclusive operator deal was signed and launched during the quarter with the brand – Swedish brand Spelklubben. And these types of partnerships is something we will continue to expand. Betting tips and subscription, strategic review done and we have now divested the noncore ATS advisory business to be able to focus and grow on our US digital [audio gap] (00:26:59) where we see good potential.

Outlook. Looking at July, our revenues came in at €4.6 million, impacted by weak performance within Sub-affiliation, which we expect to recover during the rest of the quarter. Guidance for 2024. We have now also [audio gap] (00:27:19) come in in the range of €17 million to €19 million in adjusted EBITDA. Free cash flow before earnout is estimated to come in just below EBITDA, which gives us financial flexibility to settle the current Casumba earnout.

With this word, 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.

Q

Thank you. Maybe first a question on Casumba here. You say that the traffic is stabilizing end of the quarter and you're confident that you can return to growth. Do you have some kind of concrete indications or yeah, how do you feel about that?

A

We are confident that we are – we're doing the right things and that we [audio gap] (00:28:39) is to return to growth. But we can't comment on when we expect that to happen.

Q

And also interesting to see the Sub-affiliation launch here in the US. How quick do you think you can ramp up the revenue? And I mean, what is the potential of this market? And can you say if there's any differences between maybe Europe and doing this in the US?

A

Yes. Now we got a kick start with North Carolina here in – launching in March. But the US is more acquisition-driven during the season and especially with the football, so the US football season. We expect to grow during the football season which kicks off here in end of August, beginning of September. We do definitely.

Q

And you mentioned North Carolina. How – I mean, does it take a lot of time to enter a new state or you think you could be able to add more states quickly or will that come gradually?

A

Now, we – in our current offering, we – yeah, we have more states already ready on top of North Carolina.

Q

All right. And regarding into the Euro 2024, can you give some flavor on – did you say the big kind of positive impact from that in June and less impact in July maybe?

A

We saw a good traffic increase [audio gap] (00:30:19) in games played in June and July, but overall, it was a, yeah, positive traffic trend and that we had good sales that was related to the events.

Q

And you mentioned for Sub-affiliation that some operators saw operational challenges. Can you comment anything more on that and do you expect that to improve in the coming quarters?

A

We've seen it before that our publishers have had, yeah, operational challenges, especially on the Raketech Network side, the paid traffic. And we've seen it. We have had a fantastic year for Raketech Network and our sub-affiliation with high growth. And now, when they have these challenges, it has a larger impact on the top line. But yeah, we've seen it before and we've seen that they've been recovering before as well.

Q

And regarding your guidance here and the revenue you gave for July, can you give some flavor on kind of the ramp-up? I mean, I guess you said that you expect to recover some upside for the rest of Q3, but then I guess some in Q4 will kind of be the seasonal strong quarter. If you can give any additional flavor on that.

A

Yeah, we came in on €9.4 million in adjusted EBITDA for the first six months, and we expect to land between €17 million and €19 million here in adjusted EBITDA for the rest of the year. And as just said, we – Q4 is historically a strong quarter for us.

Q

Okay. Thank you. That was all the questions for me.

A

Thank you, Hjalmar.

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

Q

Good morning, guys.

A

Good morning.

A

Good morning.

Q

So if I have a question regarding the development of gross margin in the quarter. We saw a strong Q1 given gross margin and now in Q2 as well. But have you – is it a higher gross margin on the Sub-affiliation in this quarter than usually?

A

Yeah, it's – the levels this quarter were similar to Q1 as well. And I think we indicated in Q1 that it was on the higher end and then we managed to maintain that in Q2. It – to some extent, it relates a little bit on the relative share of rev share within Sub-affiliation. And particularly for rev share, we can see some variation. So we don't really necessarily have a target for the gross margin within Sub-affiliation. The most important point for us is to try to grow profitability within that area. And so it thus depends on rev share as I pointed out. So we might see variations as we go along, but it's not a target sort of gross margin we have to keep it at this level.

Q

Okay. So is it possible to say that the Q1 and Q2 numbers were quite high then for gross margin compared to historical numbers?

A

Compared to historical numbers, they are at the higher end, yes.

Q

Okay, good. That was all for me.

A

Thank you, Rikard.

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

A

Good. Let's go to the written questions. And I think you can start, Måns, with...

A

Yes. So we had a question around the guidance. I think we covered that to the most extent from Hjalmar's question. I don't know if you want to add something additional to that one, Johan.

A

No, nothing more to add.

A

Then there's a couple of question on the approved share buyback and when and how this will be executed on, and this is obviously a decision by the Board so we can't really comment on this at this point. There's another question. If it's possible to repurchase own stocks over the market and use these repurchased stock as payment for the Casumba earnout. And this is possible, but again, it's a decision if and when. That's an alternative for the Board.

A

Yeah. It's one – also one question about on what basis do you [audio gap] (00:35:58) in Sub-affiliation. I'd just like to highlight here that we have still very strong relations with these publishers who have had operational challenges during July here. So – and yeah, historically, we've seen them recovering. So that's – we base this on that.

A

Yeah.

A

Then there is a question around the decision that we did actually issue just under 1 million new shares to pay part of the earnout now in July for the Casumba earnout. And this made financial sense to do it now given the current share price development. So this was a good opportunity that the Board and management felt at this point in time. So that was the reason for that.

Unverified Participant

Yeah. And I think that was actually all of the written questions.

Unverified Participant

And yeah, with this word, thank you for listening in and we'll see you again in November. Thank you.

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