

14-Nov-2024 Raketech Group Holding Plc (RAKE.SE)

Q3 2024 Earnings Call

MANAGEMENT DISCUSSION SECTION

Operator: Welcome to the Raketech Q3 2024 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 CEO, Johan Svensson and CFO, Måns Svalborn. Please go ahead.

Unverified Participant

...came in at €12.9 million in revenues in Q3, an organic decrease of 49.9% and a 48.8% adjusted for the divestment of advisory business. Adjusted EBITDA of €3.1 million, a decrease of 44.6% year-on-year and EBITDA of €3 million. Total adjusted EBITDA for the first three quarters, €12.5 million. October revenue was €4 million compared to €7.7 million in October last year, of which €0.4 million from the divested advisory business.

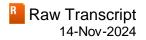
We expect Q4 to be slightly stronger than Q3 in terms of adjusted EBITDA. At the moment, it looks difficult to reach the lower end of the previous communicated full year guidance of €17 million to €19 million in adjusted EBITDA. However, visibility is limited due to the ongoing operational challenges for our publishers within Raketech Network and around the expectation of a usually stronger second half of Q4 for both Casino and US sports.

Our previous previously communicated review of our operating model that started during the first quarter of this year has led to realized cost savings of 18% compared to Q1 this year, publisher cost excluded. Free cash flow before earnout increased to \leq 3.8 million positively impacted by timing of settlement and trade receivables and payables. This allow us to meet our upcoming earnout commitment of \leq 9.9 million, payable up until the first half of next year. The remaining earnout obligation of \leq 20.6 million can be settled at any point in time at our discretion, up until September 2026.

Next slide. Now let's look at our different business areas, more in details and we will start with Affiliation Marketing. Affiliation Marketing, our in-house operated assets, our strategic partnerships had a weak quarter with revenues of €6.8 million, a decline with 28.3% compared to Q3 last year. The Affiliation Marketing revenues were stable between the months during Q3 and into November. The Casumba assets accounted for the biggest drop in revenue during the quarter. The assets have sporadically increased in traffic, but the effect from the Google Core update earlier this year is substantial. We have further strengthened the organization working with the Casumba assets where the founders remain in strategic roles.

The Swedish gaming tax rate was increased from 18% to 22% from 1st of July. This has somewhat affected the investment willingness of operators when it comes to upfront flat fees, and we saw a decline on our rev share databases during the quarter. Robin Nori-d casino markets remain stable or growing during the quarter. Our sports assets declined sequentially compared to a strong comparative period, including UEFA Euro and IPL in Q2, but mainly in line with performance of last year. In beginning of October, we signed a strategic partnership with the founders of the slot portfolio with traffic from South Europe and LatAm. On the next slide, I will speak more about how the strategic partnership works within Affiliation Marketing.

Sub-affiliation, Sub-affiliation revenues amounted to €5.5 million, a decrease of 51% compared to the strong Q3 last year. The gross margin was 25%. Our paid focused publishers on Raketech Network had operational



challenges throughout the quarter. We have had Google ad campaigns. We have seen some improvement in traffic and revenue in Q4. These operational challenges is largely due to external factors beyond our immediate control. Our relationships with our paid publishers and operators are strong and we are standby and ready to scale up the business when the market conditions improve.

AffiliationCloud, our in-house developed Sub-affiliation platform continue to deliver year-on-year organic growth. A good portion of organic growth comes from exclusive partnerships, which I will speak more about later in the presentation. We will continue to invest in AffiliationCloud to be able to onboard more partners and scale further.

Betting tips and subscription. End of July we completed the sale of a land based betting tips advisory business. This divestment led to revenue decline of 29.2%. But if you adjust for the sold assets, we have 24% organic growth for the remaining digital tips to business year-on-year.

Going to the next slide, starting with Affiliation Marketing. Today I will speak about strategic partnerships. This year we have entered into two strategic partnerships within Affiliation Marketing. The latest we were founders of the slot portfolio. The purpose of a partnership is to team up with entrepreneurs. We have a good track record of operating Affiliate products where they could benefit from Raketech's infrastructure and sites and where Raketech will secure product competence. In the partnerships we have as slots assets, the founders takes over the daily operations of assets including product development, content and SEO strategy. They use Raketech central resources as sales, finance and different IT services. These partnerships are operated with similar gross margin as if we would have operated assets fully in-house.

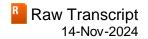
Next slide. Sub-affiliation and Exclusive Partnerships. In Q3, we closed an agreement and went live. We've an exclusive partnership with the large US operator on AffiliationCloud. The partnerships are structured in a way where we will handle operations and relations, including renegotiations of all Tier 3 and Tier 3 affiliates and publishers who like to promote for operator. The partnership with a US operator was the fourth brand who chose AffiliationCloud as their exclusive Sub-affiliation partner. We believe a lot in these type of partnerships instead of a traditional affiliation model.

In the traditional Affiliation model, each operator needs to negotiate and agree a deal with each affiliate to secure exposure and distribution. The operator must have its own affiliate team with local expertise for each market to secure compliance. At AffiliationCloud, the operator get access to multiple affiliates through one agreement. Our publisher team take care of the commercial negotiations and secure the distribution, including compliance. We pay an affiliate their commission on demand to secure good cash flow for our partnerships.

Betting tips and Subscription. At the end of July, we completed the sale of the land based Betting Tips Advisory Business to be able to focus on the digital tipster business. The difference between a land based advisory and our digital tipster business is that the focus of a land base was to generate the lead online, but driving flows for sales offline. The digitization of the tipster business has allowed us to continue generating leads online and to convert them online. We have a significant traffic volumes on our sites. We can seamlessly increase monetization on our tipster assets at scale, which will be our focus going forward. Our goal is to continue growing our digital footprint across all our tipster assets in accelerated fashion.

Now over to our CFO, Måns.

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We saw total revenues of €12.9 million, which represents a decrease for both Affiliation Marketing and Subaffiliation. On your left side, we have total revenues split on three business areas and on the right side, total revenues distributed on cluster of regions.

Starting with Affiliation Marketing, which constitutes 53% of total revenues. We did see sporadic traffic and ranking increase for the Casumba assets during the quarter, but they are not showing and a sustained recovery events.

Pulling down revenues compared to last year and also somewhat from Q2. Nordics held up relatively well and is essentially in line with Q2 and last year with Sweden performing softer, while other Nordic regions were up or stable. Visible also in Q2 specifically, it's a material decrease for our sports assets following high activity in Q2 following the IPL and UEFA Euro.

Sub-affiliation represents approximately 42% of total revenues in Q3. As we highlighted in Q2, activity slowed down quite significantly in the quarter with operational limitations for specifically our network publishers. Our relationship with publishers are still stable and performance have stabilized from a low point of the quarter, indicating some improvement into Q4. Visibility is, however, to some extent limited.

As a last point on this slide for the US, we concluded the sale of the ATS advisory at the end of July. This means revenue from this area is only including July in the quarter. A like-for-like comparison of last year, meaning excluding ATS advisory we have an organic growth of 20 plus percent for digital subscription, which is positive to see.

Next slide. This slide show revenue mix and vertical split. Just a couple of quick points on this slide. First, the variation in CPA is largely driven by the lower activity in Sub-affiliation. This area is predominantly CPA heavy, driving the decline from a very strong Q3 of last year. Secondly, flat fees are on par with the previous quarter, which is positive, meaning that our partners continue to see good value in our traffic.

As highlighted in previous quarters, we have an ongoing and continuing review of all our products and business area to ensure that we are operationally efficient. From a high point in Q1 with regards to cost, we initiated a review in cost cutting initiative and we are now seeing these initiatives realizing, with an overall decrease in total cost, excluding publisher cost of about 18% in Q1 -- from Q1. As we move along, we will continue to tweak and fine tune our operating model in line with our overall strategy.

Next slide. Adjusted EBITDA was €3.1 million, mainly impacted by the lower performance within Affiliation Marketing compared to last year, despite lower activity within Sub-affiliation, the gross profit was strong in the quarter, up 25% in this specific business area and the effect primarily of higher revenue share. The realized cost savings that I mentioned on the previous slide, additionally somewhat offset the decrease in revenues.

On the right hand side, free cash flow before earnouts is higher than reported EBITDA. I mentioned in the previous call last quarter that we were expecting a catch up in H2 and we are seeing this in Q3. This primarily relates to timing effects from paying publishers in Sub-affiliation, but also timing of settlements from operators. Overall, free cash flow before earnouts is expected to remain in line or slightly above EBITDA for the full year.

Moving along to next slide. With regards to our outstanding earnouts, the last part of consumer earnout was finalized at the end of July, meaning the final amount is now fully fixed for the next upcoming 12 months or more specifically, up until the first half year of next year, we will set the \in 9.9 million. This will be settled in cash using our current net cash position expected free cash flow under our existing facility we have in place. The remaining

€2.6 million, as we communicated previously, can be settled at any point in time up until September 2026 at our discretion. We also have a thorough discussion of the possibility to settle part of this in shares. Post September 2026, there are no other outstanding commitments related to any acquisitions.

Thank you. And over to Johan.

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Thank you, Måns. To conclude. Revenues of €12.9 million and adjusted EBITDA of €3.1 million. Cost savings in Q3 of 18% compared to Q1 this year, excluding publisher costs. We have continued our evaluation of all our products and business areas to better position ourselves for sustainable long-term growth and operational efficiency. These initiatives have resulted in the successful sale of ATS advisory and the formation of two strategic partnerships within Affiliation Marketing. As well a couple of new exclusive partnerships within Sub-affiliation.

With this word, we now open up for Q&A.

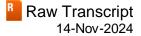
Operator: [Operator Instructions] The next question comes from Hjalmar Ahlberg from Redeye. Please go ahead.

Thank you. Just the first question on the kind of the start to Q3 here, I mean, you did say October was kind of softer and then you see some improvement in November. I guess it's difficult to say, but do you think it's in your I mean, you'd -- if it kind of don't looks sustainable or if it's kind of typical volatility there you can see in that business?

Hi, Hjalmar. Good morning. Yeah. Yeah. October amount to €4 million in revenue of and we even have sold about ATS advisory which was €0.4 million last year in October. And we -- the big drop in revenue is some of our Raketech Network and we have seen some improvement but we are are not back at the levels we were a year ago.

All right. And regarding Sub-affiliation operator challenges, do you think -- did you have any potential view on improvements there? Or when this could be sold or is just kind of waiting and seeing there?

It's a bit out of our control, but we hope that we stay strong with the publishers and the operators and are ready to scale up when the market conditions are improving way. Yeah, no, I'm talking about the Raketech Network of paint part of Sub-affiliation.





Thank. And then when you say it's difficult to reach the guidance probably. But I mean, if November were to improve and December is to be I mean, in line with historical typical positive seasonality, is that still possible or do you think it's more difficult to end up in the lower end there?

At the moment, as we stated, it looks difficult, but we don't have full visibility since some of these operational challenges we have in Raketech Network is out of our control.

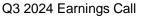
Okay. And for Casumba, I mean, you state that it's still working on the recovery there. But could you give some kind of a view maybe on the kind of general outlook for Casumba casino in Japan? I guess one operator divested their good Japanese assets. I understood. Do you think that there's the big changes ongoing in the market as well in terms of the on the casio business environment?

We follow the market closely and there have been operational challenges for the operators as well when we speaking to our partners, we have heard what they had issues with payment providers, et cetera. But yeah, we still see a high demand from operators to acquire traffic. But we haven't recovered from the Google Core update earlier this year. We have seen some sporadically increase in traffic. But yeah, we still far from the traffic levels pre the Google update.

And then a question on Sweden. I mean, you mentioned that, of course, the tax -- increased taxes have some negative impact on revenue share and potentially also fee pay, I guess, would you say that the markets have kind of reached a new level -- at the lower level? Or do you think just a little certainty in terms of how operators will do marketing and so on from there?

Sweden, I told the market is growing year-on-year compared to last year. But yeah, the tax increase has to somewhat affected our rev share databases. We of course need to to share the tax increase with the operators. And when a tax increase apply it takes, yeah, some operators are a little bit more conservative with their investments. So but we are one of the large affiliate companies in Sweden. And it's a very important market for us where we have good, good relations with operators.

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Raw Transcript 14-Nov-2024

Thanks. And then just a question on the US AffiliationCloud deal here. I mean, how big potentially if this deal I guess you can't give it the numbers, but it sounds like it's an important operator. So maybe can you give some indication of how much it could impact I mean, in the next couple of years in terms of upside potential?

Not in absolute numbers. But of course, this is a US is a huge market, is expecting to grow significant over the next years. And yeah, to secure a partnership like this, this shows that we have a good service which operators value. And yeah, so we are we are optimistic for yeah, to grow Sub-affiliation in US definitely.

All right. And just a final question I mean on your earnout settlement, I mean, it sounds like you have liquid is enough to pay the next payment of \in 9.9 million. And how do you look at the final payment there? I mean if you look at your current cash generation, what's your flexibility on being able to achieve to do that payment without any issues?

No, we think we have quite a lot of flexibility. There's flexibility around, obviously, the timing of the terms of the settlement. And it's along quite the long-term for that settlement as well. So at the moment we think we have quite a lot of flexibility around it.

All right. Thank you very much.

Thank you, Hjalmar.

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

Good morning, guys.

Morning.

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Good morning.

So my first question is regarding the gross margin in Sub-affiliation during the last it's increased quarter-overquarter. Is there any reason for that or is it just because of lower revenues in the quarter?

No, the amount or rev share increased a little bit in the quarter pushing that -- pushing up margin up a little bit then it depends a little bit on which publisher increase and decrease in the quarter as well or month-by-month, but that has a little bit of an impact as well. But I think I mentioned last quarter or that, even last quarter was a little bit on the high side and it's again a little bit on the high side. So we're not really targeting to be on 25% or we can go lower as well. So it is a little bit on the high side at the moment.

Okay. So given that if revenue were to come back, the gross margin would go down since it would increase the CPA amount in the mixture.

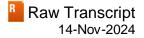
Likely that will be the case. Yes.

Okay, great. Also one question versus new Google update out now. From what I've heard, it's quite similar to one this spring. How has this effect affected your assets? Is in a similar way to big one in spring or is it improving?

It is too early to draw any conclusions. It was rolled out earlier this week. So yeah, we haven't seen any big impact yet on any of our assets.

Okay. Thank you. That was all from me.

Thank you, Rikard.



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

Good. I think we have some questions.

Yep. We have a few written question. One is related to the cash settlement related to the sale of ATS consultants, and that's been done already. And if it's included in the Q3 cash flow and we communicate this in the press release that if there is an upfront payment that is included in Q3 and there's a revenue share split ongoing with that counterpart.

There's a question on how we're working with the Casumba assets to turn them. And in the terms of the current Core update and also the one in August and the assets affected, I think this one is similar to the question that Rikard Engberg asked. So but if there's anything we only to have it's specifically around the Casumba assets operationally.

No it's, yeah, first when you -- when your assets drop in ranking from H2 we'll update and you have to do the analysis which we did a comprehensive audit after the Google update was finished in April and that is two new strategy how to recover. It's a lot of hard work, but it also need to make sure that you prioritize and do the right things. So it's work in progress, but it's very hard to expect when it gives results. But yeah, during the quarter we saw some sporadic traffic increases, but still on, still far from from a traffic levels pre Google updates.

Yeah. Then there a question around what will be the cost savings on an annual basis run rate? And like I said in the presentation, we will continuously review and tweak a little bit our operating model as we move along. But what we can say up until now is at least the latter half of Q3 is sort of a good standing point at the moment. And then we'll continue to review ongoing and tweak a little bit, as I mentioned in the call.

Yeah. And then there's couple of questions on Outlook Q4 from a revenue perspective and also Q1 of 2025. And we'll stick with the comments we have included in the presentation here on the outlook and keep you updated as we go along. And I think that's more or less its.

Unverified Participant

Yes. Thank you all for listening in. And see you again in February. Thank you. Bye bye.



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