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Raketech Group Holding Plc (RAKE.SE)

Q4 2024 Earnings Call

OTHER PARTICIPANTS

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Unverified Title, Unverified Company

MANAGEMENT DISCUSSION SECTION

Unverified Participant

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I'm from a stock portfolio and vitality market. After we dropped in, after we in October entered into a strategic partnership with the founders of these assets, we have recently signed another four strategic partnerships for our Affiliation Marketing portfolio, which I will speak more about on the next slide. Subaffiliation Subaffiliation revenues amounted to €5.2 million, a decrease of 54% compared to a strong Q4 last year and 5% lower compared to the third quarter of this year. Sorry, 2024. The gross margin for Subaffiliation was 20% in Q4. The paid revenue at Raketech Network continue to grow month on month during the quarter after hitting an annual low in September. As we have previously reported, our paid publishers may have had operational challenges with Google Apps campaigns during the last quarters, and we expect this to continue to be volatile. Our relationships with publishers and operators are strong and we are standby and ready to scale up the business further when the market conditions improve. AffiliationCloud our in-house developed Subaffiliation platform continue to deliver a 74% organic growth compared to Q4 last year. Betting tips and Subscription. Following the sale of our land based tips to business in U.S., we have been focused on improving conversion rates and monetization for our digital platforms. While traffic volumes remain strong. We have not yet fully realized our expected outcomes. Given the relatively small size of a U.S. Tuf-strand subscription business, and that we did not achieve the results we hoped for. We have now started a strategic review of a remaining tipster business, and we aim to take a decision about the future for this vertical before the end of this quarter. Going to the next slide, I will update you on our new strategic partnerships for our Affiliation Marketing vertical. And the background for these partnerships. Given the performance development of Customer.but portfolio, we have continued to evaluate the entire Affiliation Marketing portfolio to identify the most promising opportunities for profitability and long term organic growth. Raketech completed more than 25 acquisitions between 2015 and 2021. Some of these assets have had very good development, while other assets have had a tough time competing. After the assets been migrated and operated fully in-house. We have continued to maintain good relations with many of the founders and Trgp Inerts office assets we previously acquired. This relationships and through our network in gaming industry have resulted in four additional strategic partnerships with entrepreneurs who have a successful track record of operating Affiliation Marketing products. Each partnership is unique, but what is common for all of them is that Raketech take charge of sales, commercial agreements, finance reporting, data management and some fixed offices. The strategic partner is responsible for day to day operations of a product, including ecil content and product development. These type of partnerships is not a new thing for Raketech. Since 2015, the company has successfully maintained operating strategic partnerships in the Nordic markets. And in October last year, we entered into a partnership with a founders of a stock portfolio focusing on South Europe and LatAm. The new strategic partnerships include both sports and casino products in several different markets. With these new partners on board, almost 50% of our Affiliation Marketing revenue will come from products operated in strategic partnerships, which has and will result in continued streamlining of our in-house operations. Additionally, centralizing more resources at our headquarters in Malta has created a more efficient organizational structure. Looking ahead, we a strategic partnership will ensure a sharper focus and stronger performance while benefiting from retaining ownership. This should result in improved growth and sustain margin performance. Moving on to Subaffiliation and exclusive commercial agreements. The development of AffiliationCloud continues. We have a clear vision for the product and we are launching new functionality and improvements every month. Until now, we have mostly had publishers with organic products on the platform, but we plan to start migrating paid publishers from Raketech Network to the platform during the second half of Q1. A strong, committed contributor of factor to organic growth is the exclusive commercial agreements with operators where we are the only Subaffiliation platform that they can offer a commercial deal with a specific operator. We have now been the exclusive Subaffiliation platform for four operator launches Vrio, which were in 2020 for both the Swedish and the US market. We believe a lot in this setup 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. Operator must have its own affiliate team with local expertise for each market to secure compliance. At AffiliationCloud, the operators get access to multiple affiliates through one agreement. Our publisher team take care of the commercial negotiations and secure the distribution. Ensuring Compliance. We pay an affiliate commission on demand to secure good cash flow for our publishers. Now, over two months and a deeper look into our financials. Thank you, Joanna. We saw total revenues of 12.3 million in Q4, which represent a slight decrease for both Affiliation Marketing and sub

subaffiliation from Q3. On your left hand side, we have total revenues split on our three business areas and on the right side. Total revenues distributed on cluster of regions, starting with Affiliation Marketing, which constitutes 53% of total revenue. Although this area is down somewhat from last quarter, the decline is primarily due to our consumer assets. Excluding these assets, the remaining portfolio of assets increased with 3%. We saw some improvements for primarily our major sites in the Nordics through better performance, but also an effect of the expected positive seasonality effects. Subaffiliation represents approximately 42% of total revenues, as we highlight that in Q3, activity slowed down quite significantly and hit the low point at the end of the fourth quarter. But as we indicated in activity picked up in Q4, increased month over month throughout the quarter, not at the same levels we saw during the first half of the year, but still positive to see. This slide shows revenue mix and vertical split. Just a couple of quick points on this slide. First, the variations in CPA is largely driven by the lower activity in Subaffiliation. This area is predominantly CPA heavy driving, a decline from a very strong Q4 of last year. And secondly, the flat fees compared to previous quarter saw a slight decline, again, relating primarily to lower traffic for some assets, while other assets are stable to growing. As highlighted in the previous quarter, we had completing a review of all products and business areas to ensure that we are operationally efficient from a high point in Q1. With regards to cost, we initially initiated in a review and cost cutting initiative. And similar to last quarter, we are now seeing these initiatives realizing with an overall decrease in total cost, excluding publisher cost of about 29% from Q1. And as we move along, we will continue to tweak and fine tune our operating model in line with overall spending. Adjusted EBITDA was 3.2 slightly ahead of last quarter. Positively impact from the realized cost saving that I mentioned on the previous slide. On the right hand side, free cash flow before earnouts. As I noted before, that will be timing effects between EBITDA and free cash flow between the quarters. However, looking over a longer period of time, they will correlate. And for the full year of 2024, free cash flow is very much in line with EBITDA. With regards to our outstanding EARNOUTS, up until the first year of this year, 2025, we will settle 8 million. This will be settled in cash using our current net cash position, expected free cash flow and the existing facility we have in place. One point to make here is that we already set them 3 million, 8 million now in January five. And as John pointed out in the beginning, the remaining 20.6, as we have communicated previously, cannot be settled at any point in time up until September 26, at our discretion. And we also have our discretion to possibility sell a part of this in shares. And post-September six, there are no other outstanding commitments related to any other acquisitions. I think over to you, John. Thank you, Miles. To summarize before we open up for Q&A. Revenues in Q4 of €12.3 million, EBITDA of €3.2 million, and that's, sorry, adjusted EBITDA of €3.2 million and EBITDA of €3 million. Total revenue for the full year, €61.2 million with an adjusted EBITDA of €15.7 million and an EBITDA of €14.7 million. Free cash flow for the full year of €14.7 million in line with EBITDA, which provide financial headroom to settle our earnout commitments, including the €8 million due in H1 2025 and the remaining €20.6 million payable at our discretion until September 20, 26 Affiliation Marketing. Today, we are pleased to announce the four new Strategic Partnerships for our Affiliation Marketing product Vertical. While Casumba recovery remains an in-house priority, with a founders still dedicated to the business and much involved in the daily operations, Subaffiliation AffiliationCloud delivered a 74% organic growth year on year. Raketech Network Our paid Subaffiliation business showed month to month improvement during the quarter after a annual low in September. And we will start in Margareth's for first publishers from Raketech network to AffiliationCloud during Q1 updates to our subscription. We have started a strategic review of a remaining U.S. tipster business and we aim to take a decision about the future for this vertical before the end of this quarter outlook. As mentioned at the beginning of this call, we will start to report earlier this year. The Q1 report will be published 7th of May and the Q2 report 21st of July. We will as such adapt our trading update accordingly. Looking at the start of 2025, Affiliation Marketing performance is in line with Q4, but with somewhat overall lower revenues due to seasonality and lower marketing budgets from the operators. Subaffiliation had a slower start in January compared to the end of the fourth quarter, but is gradually picking up in February. Today we talked about our new strategic partnerships within Affiliation Marketing, which is a part of the transformation that is currently underway within Raketech. In connection with the Q1 report in May, we will present a more comprehensive strategic update and give you a financial outlook for the rest of the year. We before we open up for Q&A, if you wish to ask a question, please dial pound key five on your telephone keypad to enter the queue if you wish to withdraw your question, please dial pound key six on your telephone keypad. Hello. The next question comes

from Jelmer Ahlberg from Read.i. Please go ahead. Hi. Thanks for taking my questions. Maybe just a question on some of the past year, you still have work on trying to recover traffic and revenue from the asset. Do you think any feeling that you have bottomed out here or do you feel risk of further decline or can you give us some flavor ? I am. What we see is that we see stable traffic at these lower levels, but our old revenue databases are still declining since we are sending a not that many players as we used to do, but traffic traffic is stable at lower levels for for the most important keywords in the market. All right. I have a look on this new focus on the strategic partnership within affiliation. You first talked about this last quarter with the portfolio and it sounded like this have performed good. Has it worked as planned or can you give us some updates on that this far ? I guess it's early days, but they have some information about this. Yes, the full portfolio partnership we entered into about in early October, and we have started to see positive traffic trends, especially in the Italian market for for these assets. But it's still still too early to do full assessment partnerships. But we have had or and have similar strategic partnerships all the way back to 2015, which are for the Nordic markets, which have worked out very well over the years. So we are confident for for the new strategic partnerships here. And then coming to the profitability of this partnership, I guess you said historically that it's similar to affiliation. If that what you believe in this new partnership as well. Could you please repeat ? And regarding the kind of profitability and business model for the partnerships, I think you said in Q3 that the profitability should be similar, that the do with in-house. Is that the same for this new partnership such as this ? Yeah. I mean, they have the same structure. So which we are targeting to have a similar margin multiproducts they'll simply because we're getting the internally the operational we're realizing cost savings there as well on that same. Right. And the I mean, if this partnerships are successful, I'll be make sure that this is the guys that are kind of operating the assets that they remain there or I mean, can they just do it themselves ? So can you expand a bit how that works ? Yes. First, we have a long contract with them and we also have the more commercial agreements with the operators and manav's entrepreneurs. They are good.on on on product development. So but they may appreciate to have a partner who has take care of all sales, commercial agreements, finance, reporting, data hosting services. So it's it's a good win win situation. All right. And regarding the U.S., I mean, you have the subscription business there and it is under review. And if you decide that this is noncore and then divest it or close it down, will you still have exposure to the U.S. markets ? We will. We will have through subaffiliation. We in q-free, we we signed an exclusive subaffiliation platform agreement with a large U.S. operator. So we are the only Subaffiliation platform who could offer deals for that specific operator. So U.S. is an important market for issuing cloud. Right. And then coming back to AffiliationCloud, I mean, you saw really strong growth there. But but we don't have a numbers. But do you think you will reveal more details on that ? Or is it more that you will have this offer included in the subdivision in total ? Yeah, we're working on developing the platform and as mentioned that we will now in Q1 start to migrate. Raketech Network, Subaffiliation publishers from the third party platform to our own platform. So the target is to have all subaffiliation revenue on AffiliationCloud at some point. We're not there yet, but we're working towards that target. All right, thanks. And then coming to the outlook for 25, I guess we will come back to that in Q1, as you stated with some more information on the on the partnerships, among other. But could you give some some flavor and perhaps some on the region regional ? Do you see any regions that have tailwinds or potential ? And then the headwinds, I mean, for example, some other affiliates have have a Brazil where the regulation seems to hit a bit tougher than expected, maybe. So if you can give some flavor on the regional outlook for 20. Yes. Yeah. So both of this is fairly minor where we've seen some lower revenue from from the Swedish markets here in H2 as a as a consequence of the attacks increased from 1st of July. We Italy is growing that market as mentioned. It is growing. And we also have seen good growth in us from from AffiliationCloud. So we yeah. But we will come, come and give you a more of a detailed financial outlook in, in relation to the Q1 report 7th of May. All right. And then just a final question on your earn out payments from here, I guess the 8 million coming up this year and then looking at the 20 million remaining for the interim, the headroom on the timing of that, could that could that be renegotiated ? Or is that the very, very firm lost date of payment ? And in September 26, we can get back to you around that a little bit later on. What we feel at the moment is that we we have a lot of alternatives around the earn out and how we do to settle it or find other alternatives. But let us get back to you guys with that later on when it's when we get closer to it. All right. Thank you. Thank you. The next question comes from Rikard Engberg from Carnegie Investment Bank. Please go ahead. Good morning, guys. Good morning. Wake up. Yeah. So I have one quick question about Subaffiliation

and AffiliationCloud. Given that you are going to migrate customers or customers to affiliation cloud, would that would that indicate that the gross margin for some information might go up once the integration is done ? No, that wouldn't really impact unless I'm misunderstanding your question or you're thinking about something specifically. You have a basic sense that you don't have to use a third party. Third party ? Well, no, not not materially. That's in relation quite a small cost for us. Okay. Thank you. That was basically my question. Thank you, Ricardo. As a reminder, if you wish to ask a question, please dial key five on your telephone keypad. There are no more phone questions at this time, so I hand the conference back to the speakers for any written questions or closing comments. Yes. Let's start to look at for written questions. Yes. We have one question, Aram, around the relating to the disposal of the service business. And if all that might have been paid. And if not, how much will remain ? And when will the remaining part discipline.so ? This will indicate that in your press release when we sold it, that there's one part up front and then there's one part which is on roadshow around that share is ongoing still under the current assessment we have is that that will be settled as a current, the receivables will be settled within the next 9 to 12 months. Is the current assessment. Here's one around market conditions that are hurting the subaffiliation some I think we talked about this previous quarter, but we want to and if it's Google related and yes, it is paid publishers, they have challenges to to operate their campaigns through the Google ads platform which has been going on for since since mid Q2 last year. And then there's another question around Subaffiliation and if there were any plans to expand Subaffiliation to new, fast growing markets such as some African countries for AffiliationCloud. And what we've seen is for Papadias, it's the quality is so we we focus a lot on ongoing organic side and regulated markets is the prime targets but we don't we don't close any and adore's for regulated African markets. Yeah. Then there was a question on the Slotjava pro-doc products seen an improvements. I believe the other markets you answered this, but if there's anything you want that you want, please go ahead. Now, what we have seen since the founders in the strategic partnership took over assets in early October, we have started to see the traffic ranking improvements, especially in Italian market. So there are improvements definitely. Then there's a question around an increase. What's the reasons for an increase with regards to receivables as a percentage of revenue and if there is a problem to get paid from customers ? The short answer is no, we haven't difference in trade or in of settlements. It's always a bit of a work in this sector and that will continue. But we don't see an any negative trends in getting paid. And it's a question about yeah, there's there's a couple of question on the earn out payments are very similar to the question from Del-mar. So I think those have been replied to. Then there's a question on and the guidance on revenues EBITDA for 2025. And as you pointed out, we will get back to this in connection with the Q1 with a more overview on the financial outlook. On the question about the Brazilian market, it's been corrected for the start of 2025. The reregulation started 1st of January and it's still too early to to draw any conclusions on the outcome of the reregulation. If we can come back to that in the Q1 report. Okay. That was all for for today. Thank you all for listening in. And thank you for all questions. And we hope to see you again in May. Thank you.

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