

07-May-2025

Raketech Group Holding Plc (RAKE.SE)

Q1 2025 Earnings Call

MANAGEMENT DISCUSSION SECTION

Operator: Welcome to the Raketech Q1 2025 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

Good morning and welcome to Raketech's Q1 2025 presentation. My name is Johan Svensson and I'm the CEO of Raketech. Today, CFO Måns Svalborn and I are here to present Raketech's Q1 reports. I will as well share an update around the new strategic direction with Platform First Approach and our new entrepreneurial partnerships. We start to look at our financial highlights. We came in at e €9.8 million in revenues in Q1, an organic decrease of 48.8% year on year and 46.6% decrease for the divestment of advisory tips to Business. Adjusted EBITDA of €2.4 million. A decrease of 52.6% year on year. We have an EBITDA of €2.1 million. The free cash flow was €1.7 million, which supports the €8 million in H1 earnout payments, of which €6 million was settled during the first quarter. We have agreed on an extension of the remaining earnout of €20.6 million original due in September 2026. It will now be payable up until March 2028.

The option to settle part of Amount.in shares has been removed. We saw a significant decline in our US betting tax and subscription business in Q1 compared to Q4. And this this business area had a negative EBITDA impact of €0.3 million compared to essentially flat EBITDA in the fourth quarter. We are in the final stage of a strategic review of these assets, but outcome of a new operating model has resulted in further cost savings. Our costs were 34% lower compared to Q1 last year. Direct publisher costs excluded.

Now let's look at the performance of each business area during the quarter, starting with Affiliation Marketing affiliation marketing came in at €6 million in revenue in Q1. Q1 is in general a seasonally slower quarter compared to the strong Q4. And we had a somewhat slower start, but activity and revenue picked up in the latter part of the quarter. Consumer assets continue to decline and if you exclude these assets, the quarter was in line with Q4 adjusted for some seasonality, turning our consumer assets from decline to growth remains a key focus, and we continue to invest in our products to adapt to the changes in the market and the new competition, because some of the founders are still dedicated to the daily operations, but the Nordic markets shows stable performance in line with Q4. Adjusted for some seasonal effects and a slightly shorter Q1. As previously reported, we signed four new partnerships with entrepreneurs, which all have great experience and track record in managing affiliation assets. All four partnerships were kick off during the quarter. It is still too early to report any revenue impact from these new partnerships, but we see a strong operational momentum with high operational activity. The entrepreneurial partnerships accounted for approximately 50% of the total Affiliation Marketing revenue during the first quarter.

These entrepreneurs brings expertise in product development, content creation and sales strategy and daily execution. While Raketech focus on the commercial and operational side from our central team, we are taking care of commercial agreements, sales, finance, reporting, data management and tech. Subaffiliation Subaffiliation revenues amounted to €3.4 million and the gross margin for Subaffiliation was 21%. The paid publisher network faced a marked decline in March due to additional operational challenges with Google ad campaigns. We don't expect a meaningful recovery in the near future. Our relationships with our paid focused publishers and operators continue to be strong, and we are standby and ready to scale up if the market conditions improve. Organic

segment of Subaffiliation delivered organic growth. We have over eight active revenue generating partnerships during the quarter. All organic Subaffiliation Operators – operations are fully managed through our property area platform AffiliationCloud us betting tips and subscription. We saw a significant decline in our US betting tips and subscription business in Q1 compared to Q4. This business area had a negative EBITDA impact of BORNFREE million euros compared to an essentially flat EBITDA in Q4. As mentioned before, we are in the final stage of a strategic review of these assets.

Going to the next slide, I will give you an update on AffiliationCloud and our platform first approach. AffiliationCloud is our property area platform into which we have intensified our investments over the past quarters. The plan is for AffiliationCloud to serve as the foundation for all sales data, compliance and business intelligence, whether it's our own Affiliation Marketing portfolio or any of our Subaffiliation Networks. Regardless if we own assets connected to the to the platform or if it is publishers from our Subaffiliation Subaffiliation Network, the platform serves the same purpose for all products focusing on traffic and sales optimization, which creates value for all connected products as well operators receiving leads.

For operators this presents a significant advantage. They benefit from a streamlined process by negotiating with a single trusted partner rather than managing separate agreements with multiple publishers. In terms of platform development, our focus in the first quarter has been on simplifying the onboarding process for publishers. Making it easier, easier to get started include an automated KYC process and compliance reviews of that product. We also worked intensively on improving data quality through a fully custom build structure, which we plan to launch during the second quarter. This upgrade is expected to improve the overall data quality. We have an ambitious road map for the remainder of the year, focusing on powerful new features such as automated reporting, improved user experience and a flexible order solution that enables publishers to withdraw their commission on demand.

Subaffiliation and exclusive commercial network agreements. The core strength of our offering to both external publishers and operators is what we refer to as exclusive commercial network agreements. These agreements mean that we are the only Subaffiliation platform able to offer a commercial deal with a specific operator. These agreements are often established when an operator launches a new brand and seeks rapidness attribution through a trusted affiliate network, while still maintaining high standards for profit, quality and compliance. We are now being exclusive Subaffiliation platform for four operator launches, three of which were in 2024 both the Swedish and the US market. We have a clear ambition to onboard additional exclusive agreements with new operators throughout 2025. We see a strong potential in these type of commercial agreements as a complementary approach to the traditional affiliate model. In the traditional affiliate 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 through AffiliationCloud. The operators gets access to multiple affiliates through one agreement. Our publisher team took care of the commercial negotiations and securing distribution, including KYC and compliance. We pay affiliates a commission on demand to secure good cash flow for our publishers.

Now, excuse me. Now, I will speak about our entrepreneurial partnerships for our Affiliation Marketing portfolio. As mentioned earlier in my presentation, we have now launched four new partnerships with different entrepreneurs for our Affiliation Marketing portfolio. The new partnerships are mainly focused in Sweden and Denmark and cover both sport and casino products. The background to what we now refer to as entrepreneurial partnerships is the challenges we have experienced in operating our products at scale following the exit of entrepreneurs from who we acquired these businesses. Each partnership and its exact structure are tailored to match the specific needs, size, investments and expertise involved. What our partnerships have in common is that Raketeq, through its central teams, manage sales, commercial agreements, finance reporting, data

management and some parts of a tech. Our partners are responsible for day to day operations, including SCO content creation and product development. Together with our partners, we bring complementary, complementary expertise to the table, enabling sustainable, long term growth. These type of partnerships is not a new thing for Raketech. Back since 2015, the company has successfully maintained partnerships with entrepreneurs in the Nordic markets.

And in October last year, we entered into a partnership with the founders of a stock portfolio focusing on south of Europe and LatAm. Also related partnerships only launched in March. We are already we already seen a noticeable increase in operational activity with the various teams actively driving new product development of fresh content creation in Affiliation Marketing approximately 50% of our revenue now comes from these partnership and it is a strategic focus for us to grow this further during 2025.

Now over to Måns, who will give us a deeper look into our financials.

Unverified Participant

Thank you, Johan. We saw total revenues of SEK 9.8 million in Q1. On your left side, we have total revenues split on our three business areas. And on the right side total revenues distributed on a cluster of regions, starting with Affiliation Marketing, which accounts for 62% of total revenue in the quarter. While there's been a slight decline compared to last quarter, most of this is due to our consumer assets. Excluding those, the rest of the portfolio is only down slightly compared to Q4. The decrease is mostly in line with the expected seasonal trends and the short demands from month of February. Subaffiliation represents approximately 35% of total revenues in Q1. The decrease in revenues, as John pointed out, relates primarily to our paid network publishers. The last few quarters we have seen ongoing challenges for our publishers and the area of experienced additional headwinds as from March this quarter.

Looking into April, May, we don't see any meaningful pick up and we don't expect volumes to increase in the short term. But we do, however, stand ready should volumes return. As Johan covered as well earlier in the presentation, we have seen positive momentum within the Organic Publisher Network with a growing number of revenue generating publishers, which is promising for this area as we move along.

This slide shows 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 subaffiliation. This area is predominantly CPA heavy driving the decline from a strong results from previous quarters. Flat fees and rev share in Affiliation Marketing are however reasonably steady and in line with expected seasonal trends.

As we highlighted in previous quarters, we have had a continuing review of all our products and business areas to ensure that we are operationally efficient from a high point in Q1. With regards to cost, we initiated a review and cost cutting initiative and similar to last quarters, we are now seeing these initiatives realizing with an overall decrease in total cost, excluding publisher costs of 34% from Q1 of last year. As we move along, we will continue to tweak and fine tune our operating model in line with the overall strategy. Adjusted EBITDA was SEK 2.4 million somewhat positively offset from realized cost savings that I mentioned on the previous slide. Adjustments related to restructuring costs as an effect of our strategic shift of working through entrepreneurial partnerships. On the right hand side and free cash flow before earnouts, we will have timing effects between EBITDA and free cash flow, but they will correlate over time. In Q1, specifically, free cash flow is essentially in line with EBITDA, considering some CapEx interest payments and lease payments.

Furthermore, specifically on earnout payments, we settled on SEK 6 million in Q1 and we will set the additional SEK 2 million in Q2. This leaves us with the last earn out payment that was originally due in September 2026, of which now the payment period has been extended up until March 2028. I will cover this on the next slide.

We communicated yesterday that we have agreed with the sellers of Casumba to revise the terms of the payment period. The main points are the following. We have extended the earnout payment from September 26 to March 2028. This relates to the outstanding amount of SEK 20.6 million excluding interest. We previously had an option to sell a part of the remaining earn up in shares. This has now been removed. We have an ambition to, of course, settle the earnout as early as possible and have committed to settle in partial installments on a quarterly basis, as from Q3 of this year. Overall, this creates further financial flexibility for us, and we have financial headroom to focus on strategic business initiatives. And even though we have the possibility of a rather lengthy extension, we will retain the ambition to settle as soon as possible.

Thank you. And over to you Johan.

Unverified Participant

Thank you, Måns. To summarize, before we open up for Q&A. Financials, revenues in Q1, €9.8 million, adjusted EBITDA of €2.4 million, representing a margin of 24.5% and an EBITDA of €2.1 million. Excluding publisher costs, our cost savings resulted in a 44% reduction in expenses compared to Q1 2024. Key takeaways per business area Affiliation Marketing before new partnerships with entrepreneurs who have a strong track record and experience from Affiliation Marketing have now been launched. These type of partnerships generated approximately 50% of Affiliation Marketing revenue in Q1 and we expect it to grow. Casumba assets are still on a negative revenue trend, and turning businesses from decline to growth remains a key focus. Excluding these assets, Q1 performance for the remaining portfolio was in line with Q4. Adjusted for some seasonal effects, Subaffiliation Organic Publisher Network delivered organic growth and the number of active unique publishers generating revenue exceeded 80. During the quarter, the paid publisher network faced a market decline in March due to additional operational challenges with Google ad campaigns, US betting tips and subscription. We saw a significant decline in our US betting tips and subscription business in Q1 compared to Q4. And this business area had a negative EBITDA impact of €0.3 million compared to an essentially flat EBITDA in Q4. We are in the final stage of the strategic review of these assets. Business Outlook our focus going forward is clear to continue developing AffiliationCloud into a leading commercial platform that delivers value across our own Affiliation Marketing assets, our external publishers and our operators.

We see strong potential to create long term value in our Affiliation Marketing portfolio through our entrepreneur partnerships. We're already seeing increased activity. Revenues for our Affiliation Marketing assets in April remains consistent with Q1 subaffiliation. The lower margin paid network continues to face headwinds while we see continued good activity from organic publisher network. And now we open up for for Q&A.

QUESTION AND ANSWER SECTION

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

Q

Good morning, guys.

A

Hi Rikard. Good morning.

Q

Good morning. Can you hear me? Good. So I have a question regarding the subaffiliation segment. So given that you have increased the number of active publishers from 8 – from 50 last year to 8 this year, what's it's basically organic versus paid in the segment, given the decline year on year.

A

We are not disclosing the split between between paid and organic, but we see an organic growth in mind.

Q

Okay, good. And also on the Affiliation Marketing side, have you seen the assets that are operating in the partnership? Do you see have you seen a good momentum in the – during the quarter and the end of 2024.

A

Yes, we see we in Q4 last year we did one for with the slot portfolio where we have seen a good momentum and the latest one they were launched during the Q1 here and most of them in March. So we see a good operational momentum. We have very high operational activity, but it's too early to see any revenue impact.

Q

Okay. Thank you. That's all for me.

A

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.

A

Yes. Let's look out for written questions. We have a first one here from Hampus. How does the Brazilian market look so far this year?

A

The Brazilian market, it's not a huge market for us, but we we have some revenue from it. And we saw a slow start in January, but revenue picked up throughout the quarter.

A

Next one from Hampus can influences from different platform use AffiliationCloud? Yeah in France – in France versus. So I don't know exactly what what you refer to here but we have different influencers and and in different type of products we're using, using the platform already and we are constantly working on, on developing the platform for, for new type of traffic streams and who can use it. So the answer is yes on that question.

A

There is one question around what is the EBITDA profitability or affiliation of current revenue levels? I take this as you mean Affiliation Marketing, and we don't split that separately. But what we've said previously is that the EBITDA margin for Affiliation Marketing in general is between 60% to 80%. And that's still that's for instance.

A

And another one, Casumba is the interest charge of 5%/6% plus [indiscernible] (00:30:13) a new clause or didn't exist in the original or announced earnout agreement? Yes, that exists under the original earnout agreement. So the rate of 5% that that is actual up until September 2026 is in line with the old agreement.

Unverified Participant

Good. Yeah. Thank you all for listening in and hope to see you again in in July. Thank you.

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