



ERIK PENSER BANK

Penser Access | Internet, Software & Services | Sweden | 16 November 2023

Raketech Group Holding

Full-year guidance raised

Solid growth behind guidance increase

Revenues came in at EUR 21.5m for the quarter, revealing growth of 65.8% y/y and 22.1% q/q. This was driven by the Sub-affiliation segment, which saw growth of 264%. Given the healthy development in Q3 and that revenues of October hit EUR 7.7m, the company expects to end this year stronger than its revenue guidance of EUR 65–70m suggests. EBITDA was EUR 5.6m in Q3, with a margin of 26.1% and showing growth of 16.5% y/y. As the margin in Sub-affiliation is lower than in the affiliation marketing segment, full-year guidance for EBITDA of EUR 23–25m and FCF of EUR 13–15m is unchanged.

A different mix in the future

Given the exceptionally high growth in the quarter, we lift our revenue estimate for this year by 21.4%, meaning the company goes some EUR 8m higher than previous full-year guidance. We believe revenues for the rest of Q4 will be in line with that seen in the October update. Given the lower gross margin in Sub-affiliation, we lift our EBITDA estimate by 5%, taking it to the upper end of the full-year guidance range. For 2024–2025, we raise our revenue forecasts by 18.6% on average on account of the robust growth in Sub-affiliation. Given the change in the revenue mix, owing to Sub-Affiliation and its considerably lower gross margin, EBITDA will increase by an average of 1.7% in 2024–2025. Changes to EPS for the coming years stem from our expectation that all earnouts will be paid in cash and included in net debt.

Fair value maintained

Despite the healthy report, we leave our fair value unchanged at SEK 34–36. We believe, however, that the chief reason for Raketech's low multiples – uncertainty regarding additional purchase considerations – has eased, and given its solid cash position, available credit, and strong cash flow generation, we believe the company could pay out these purchase considerations in a manner favourable to existing shareholders.

Estimate changes				Forecasts (EURm)					Valuation and risk				
	23e	24e	25e		2022	2023e	2024e	2025e	Fair value	SEK 34,0 - 36,0			
Total revenues	14,5%	21,8%	21,0%	Total revenues	53	78	95	105	Share price	SEK 16,8			
EBITDA, adj.	5,2%	1,8%	1,6%	Growth	37%	48%	22%	10%	Risk level	Medium			
EPS, adj.	4,0%	9,8%	8,7%	EBITDA, adj.	20	25	29	33	<div style="background-color: #004a99; color: white; padding: 5px; text-align: center;">12-mth share price development</div>				
Coming events				EBIT, adj.	12	13	17	21					
				EPS, adj.	0,2	0,2	0,4	0,4					
Company details (EURm)				EPS growth, adj.	9%	15%	58%	22%					
				Equity per share	2,2	2,4	2,7	3,0					
Number of shares (outstanding)			42m	Dividend per share	0,1	0,1	0,2	0,2			Conflicts of interest		
Market capitalisation			62	EBIT margin	23,6%	17,0%	18,1%	19,9%					
Net debt			41	ROE, adj.	9,3%	9,7%	13,9%	15,3%					
EV			103	ROCE, adj.	11,8%	11,6%	14,0%	15,4%					
Free float			74%	EV/Sales	2,1x	1,3x	1,1x	1,0x					
Daily trading volume, average			125k	EV/EBITDA	5,4x	4,1x	3,5x	3,1x					
Bloomberg Ticker			RAKE SS EQUITY	EV/EBIT	8,7x	7,8x	6,0x	5,0x					
Analyst				P/E, adj.	8,2x	6,5x	4,1x	3,4x					
				Rikard Engberg			Price/book value	0,7x	0,6x	0,5x			0,5x
				rikard.engberg@penser.se			Dividend yield	5,9%	7,9%	10,9%			13,3%
			FCF yield	8%	23%	35%	37%	Market maker	Yes	No			
			Net debt/EBITDA	0,3x	-0,2x	-0,2x	-0,3x	Certified adviser	Yes	No			
								Transactions, 12 mth	Yes	No			

Investment case

Structural growth: Raketech operates in one of the fastest-growing forms of entertainment, igaming. As an affiliate company, it has opportunities in rapidly growing markets and to ride the global growth wave we see in this industry.

Solid balance sheet and cash flow generation: In recent years, Raketech has shown solid cash flow generation, paying out dividends in 2023. Affiliate companies have historically seen low valuations on account of high turnover and less successful acquisitions. We believe Raketech has succeeded recently in proving itself through value-creating acquisitions and the generation of sufficient cash flows to resolve earnouts, leading to a cleaner balance sheet going forward.

AffiliationCloud: Raketech owns the AffiliationCloud software, a business intelligence tool for both affiliates and operators. When launched, in conjunction with the company's Q1 2022 report, it was expected to reach revenues of at least EUR 10m and an EBITDA margin of 10–15% within two years. We consider the value of AffiliationCloud to be around EUR 30–50m if it can achieve this, thus representing a lasting component of Raketech's market share.

Company profile

Raketech is an affiliate company. This means it operates websites that provide clients – in its case, gaming operators like Kindred and Betsson – with end-customers. Raketech is paid a lump sum per depositing customer or via a share of the gaming profits from the customers it refers to an operator. Affiliate marketing is especially common in high growth markets, often being the first channel to open up. It is also flexible in emerging markets that lack regulation. The key growth market for Swedish affiliate companies today is the US, where Raketech is present thanks to acquisitions. Other important growth markets are Japan and South America.

Globally, about 10% of all gambling takes place online, with physical casinos and betting shops accounting for the other 90%. Growth in the igaming sector is thus driven two factors: increased gambling when the economy expands, and online rather than offline gambling. Affiliation is the chief form of marketing in unregulated markets, where the conversion rate is the highest.

Affiliate companies in general, and Raketech in particular, are the lowest valued entities in the gambling value chain. In 2019, when the sector began to be regulated, affiliates' valuations dropped sharply. These valuations are partly the result of several players experiencing low profit growth for some time, owing to dilution, despite solid revenue growth. We believe Raketech has now tidied up its business and will start to enjoy the high structural growth from the North and Latin American markets, among others.

Valuation

We have chosen to value Raketech using a DCF model. In our view, Raketech should see its discount minimise versus other listed affiliates in the coming six to 12 months, and we thus see a fair value of SEK 34–36. We believe the lessening uncertainty regarding earnouts will prove a share price catalyst.

As AffiliationCloud is still in its infancy, we do not include it in our valuation. Should it achieve the targeted revenues of EUR 10m, we would see an additional EUR 30–40m in fundamental value for Raketech.

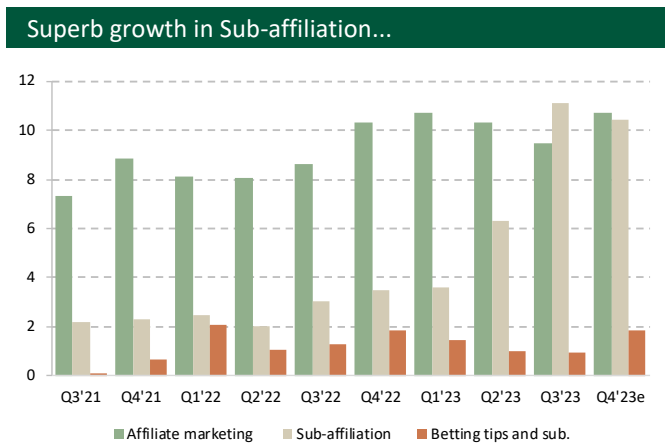
Brief overview of the quarter

Affiliation marketing: This segment reported revenues of EUR 9.5m for Q3, suggesting growth of 9.6% y/y. The solid growth from Casumba and the Latin American markets offset the weaker Nordic markets.

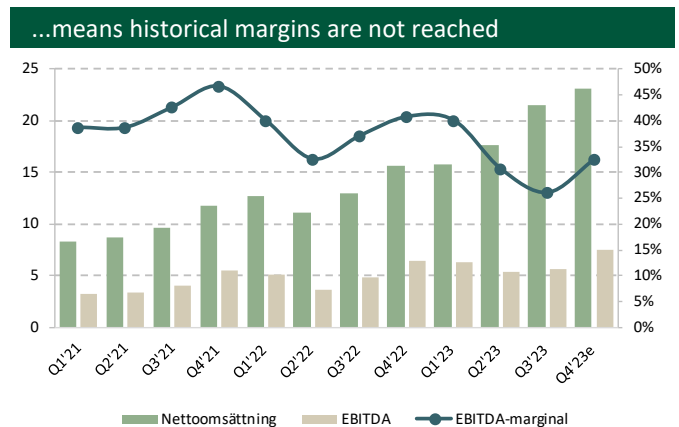
Sub-affiliation: The business reported revenues of EUR 11.1m, implying growth of 264% y/y. All markets performed well and the AffiliationCloud software, which is soon to be launched in the US, saw a doubling in the number of active customers.

Betting tips and subscription income: Revenues only reached EUR 0.9m in the quarter, suggesting growth of -28% y/y. Measures were taken during the quarter to return this area to growth.

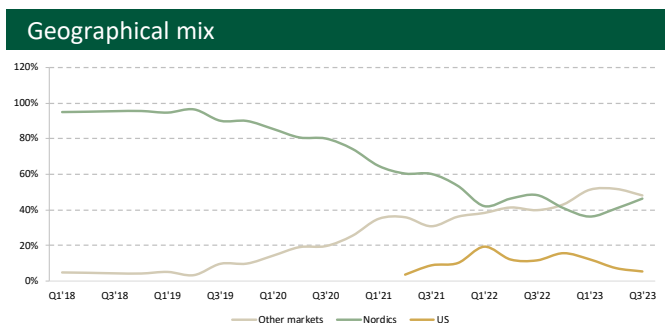
We believe the size of the earnout associated with Casumba has now been set. The chart below shows that the current cash position and future cash flows will be more than sufficient to resolve payments in the coming years without a significant dilution. We believe the uncertainty regarding this has impacted the share price this year.



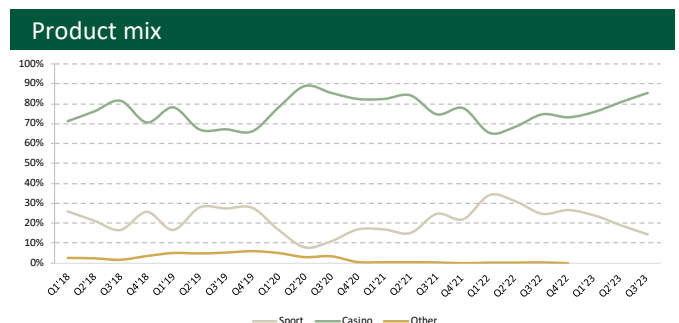
Source: Company, EPB



Source: Company, EPB



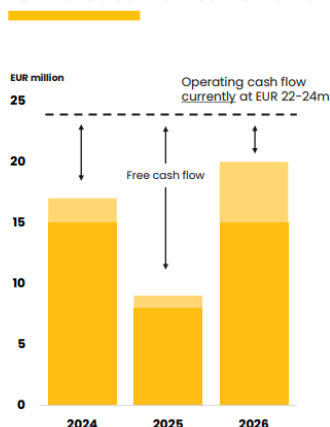
Source: Company



Source: Company

Increased clarity regarding earnout should reduce discount to peers

Estimated earnout settlements



Source: Company

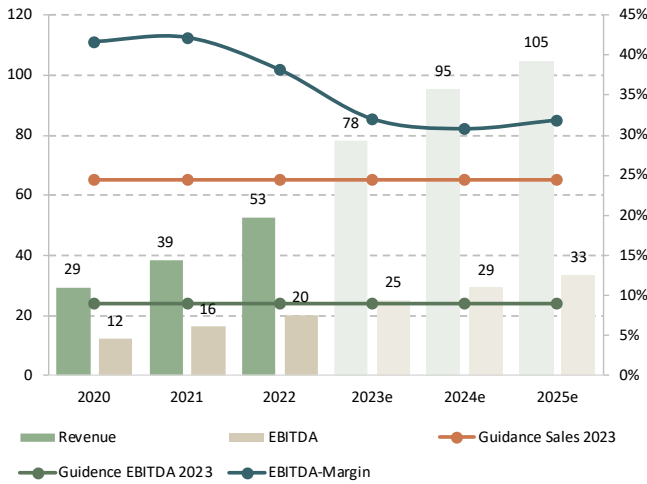
	2024	2025	2026
Estimated earnout to settle	17m	9m	20m*
Cash	15-17m	6-9m	12-20m
Equity (at RT discretion)	0-2m	0-3m	0-8m

* Can be settled at any point in time up until September 2026

- **Majority of earnout determined**, with only cash flow positive profit share remaining
- **Current cash flow well above estimated earnout cash outflows**
 - Settlement in shares at full discretion of Raketech
- **Founders to stay onboard**, to oversee portfolio of assets and work on other growth projects

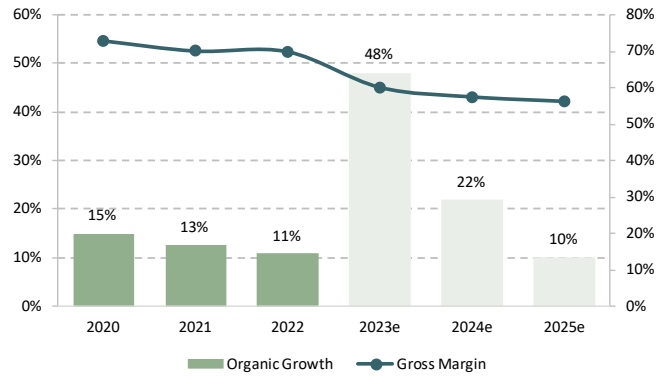
Estimates

Guidance to be beaten this year



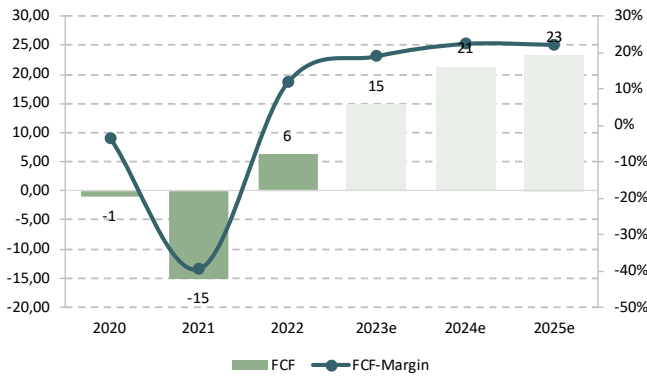
Source: Company, EPB

Changed mix boosts growth but narrows margins



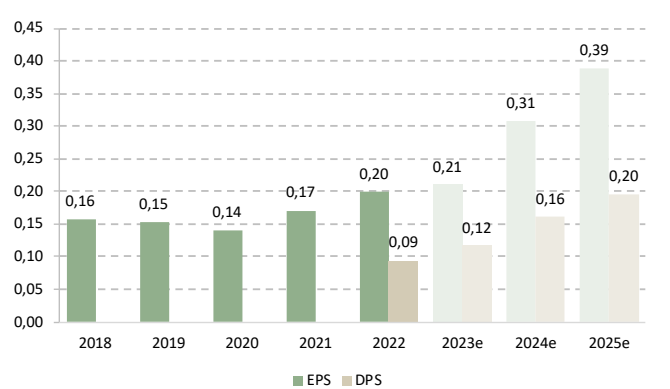
Source: Company, EPB

Solid cash flows to finance earnout...



Source: Company, EPB

...and more dividends to come



Source: Company, EPB

Valuation

DCF		
Valuation output		
Sum of PV of FCF (explicit period)	129	
PV of terminal value (perpetuity formula)	66	
Enterprise value	195	
Latest net debt	41	
Minority interests & other	0	
Equity value	154	
No. of shares outstanding (millions)	43	
Equity value per share	35,5	
WACC assumptions		
Risk free nominal rate	2,5%	
Risk premium	5,5%	
Small cap premium	4,0%	
Extra risk premium	0,0	
Cost of equity	13,0%	
Cost of debt (pre-tax)	0,0%	
Tax rate	0%	
Target debt/(debt + equity)	10%	
WACC	13,0%	
Terminal value assumptions		
Long term growth rate	2,0%	
Long term EBIT margin	25,0%	
Depreciation (% of sales)	2,0%	
Capex (% of sales)	4,0%	
Working cap. (% of sales)	4,2%	
Tax rate	12%	

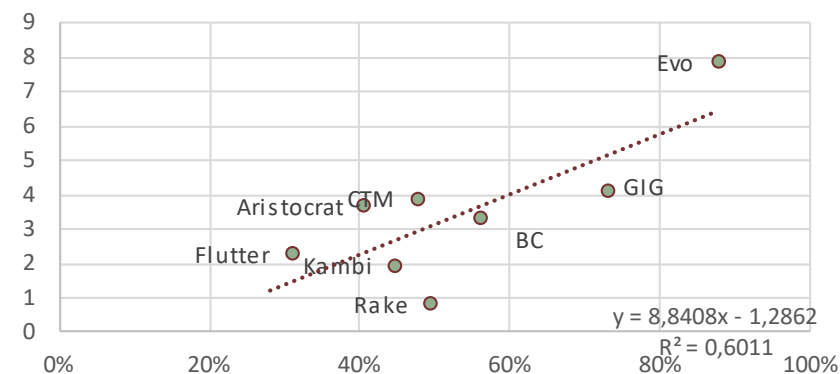
Sensitivity analysis

Long-term growth rate						Long-term EBIT margin							
		1,0%	1,5%	2,0%	2,5%	3,0%			20,0%	22,5%	25,0%	27,5%	30,0%
WACC	12,0%	37,1	38,4	39,7	41,2	42,9	WACC	12,0%	33,8	36,8	39,7	42,7	45,6
	12,5%	35,2	36,3	37,5	38,8	40,3		12,5%	32,0	34,8	37,5	40,2	43,0
	13,0%	33,4	34,4	35,5	36,7	38,0		13,0%	30,4	32,9	35,5	38,0	40,6
	13,5%	31,7	32,6	33,6	34,7	35,8		13,5%	28,9	31,2	33,6	36,0	38,4
	14,0%	30,2	31,0	31,9	32,9	33,9		14,0%	27,5	29,7	31,9	34,1	36,4

Source: EPB

X: Value creation (average growth for 2024–2025 + average EBITDA margin), Y: EV/Sales 2025

Rake sticker ut i industrin med högt värdeskapande (X-värdeskapande, Y EV/sales 2025)



Source: Factset

Peer group														
Valuation	MCAP (USD)	EV (USD)	EV / Sales			EV / EBITDA			EV / EBIT			Price / Earnings		
			LTM	2024	2025	LTM	2024	2025	LTM	2024	2025	LTM	2024	2025
Gaming Innovation Group	362	429	3,16x	2,30x	2,04x	8,6x	4,8x	4,1x	18,2x	7,9x	6,2x	17,8x	8,6x	6,6x
Catena Media	125	188	1,72x	1,86x	1,65x	3,8x	4,6x	3,9x	5,0x	6,5x	5,0x	--	8,1x	5,8x
Kindred Group	1 954	1 935	1,35x	1,13x	1,04x	9,1x	6,1x	5,2x	13,8x	8,0x	6,6x	10,4x	9,9x	7,8x
Kambi Group	513	450	2,38x	2,02x	1,93x	6,7x	5,9x	5,4x	13,6x	11,8x	10,5x	20,8x	17,2x	15,3x
Better Collective	1 420	1 600	4,93x	3,77x	3,31x	13,7x	9,9x	8,2x	16,7x	12,1x	9,7x	24,0x	16,1x	12,0x
Evolution	21 998	21 048	11,39x	9,09x	7,84x	16,3x	13,0x	11,1x	18,1x	14,2x	12,0x	20,2x	17,6x	15,0x
Flutter Entertainment	28 131	33 066	2,90x	2,49x	2,25x	18,5x	13,1x	10,5x	79,5x	17,4x	13,4x	(389,6x)	24,3x	17,6x
Entain	7 009	10 555	1,84x	1,67x	1,58x	22,2x	7,7x	7,2x	--	10,4x	9,1x	(10,4x)	13,3x	9,9x
Aristocrat Leisure	16 748	16 390	4,02x	3,90x	3,65x	12,1x	11,3x	10,3x	14,8x	13,7x	12,8x	17,9x	18,6x	17,0x
Rakotech Group Holding	69	74	1,14x	0,87x	0,80x	3,1x	2,3x	2,1x	5,3x	3,9x	3,3x	7,2x	5,0x	4,1x
Mean			3,48x	2,91x	2,61x	11,4x	7,9x	6,8x	20,5x	10,6x	8,9x	(31,3x)	13,9x	11,1x
Median			2,64x	2,16x	1,99x	10,6x	6,9x	6,3x	14,8x	11,1x	9,4x	17,8x	14,7x	11,0x

Source: Factset

Income statement

	2018	2019	2020	2021	2022	2023e	2024e	2025e
Net sales	26	24	29	39	53	78	95	105
Total revenues	26	24	29	39	53	78	95	105
Cost of goods sold	-2	-4	-8	-11	-16	-31	-40	-46
Gross profits	23	20	21	27	37	47	55	59
Other operating costs	-11	-7	-9	-11	-17	-22	-25	-26
EBITDA	13	13	12	16	20	25	29	33
EBITDA, adjusted	13	13	12	16	20	25	29	33
EBITA, adjusted	13	13	12	16	20	25	29	33
Amortisation	-2	-5	-5	-7	-8	-12	-12	-12
EBIT	11	8	7	9	12	13	17	21
EBIT, adjusted	11	8	7	9	12	13	17	21
Net financial items	-6	-1	-1	-2	-2	-3	-1	-1
Profit/loss before tax	5	7	6	8	10	11	16	20
Profit/loss before tax, adjusted	5	7	6	8	10	11	16	20
Total taxes	0	0	0	-1	-2	-1	-1	-2
Net income	5	7	6	7	8	10	15	18
Net income, adjusted	5	7	6	7	8	10	15	18
Revenue growth	-	-6%	23%	31%	37%	48%	22%	10%
Gross margin	91,6%	85,1%	73,0%	70,2%	70,0%	59,9%	57,4%	56,1%
EBIT margin, adjusted	43,8%	35,0%	23,3%	24,5%	23,6%	17,0%	18,1%	19,9%
EPS, adjusted	0,12	0,19	0,15	0,18	0,20	0,22	0,36	0,43
EPS growth, adjusted	-	57%	-19%	19%	9%	15%	58%	22%

Source: Raketech Group Holding, EPB

Cash flow analysis

	2018	2019	2020	2021	2022	2023e	2024e	2025e
EBIT	11	8	7	9	12	13	17	21
Other cash flow items	2	3	5	7	8	11	11	11
Changes in working capital	-2	0	0	-2	-1	-2	1	0
Cash flows from operating activities	11	11	12	15	19	22	30	31
Investments in intangible fixed assets	-17	-9	-13	-15	-13	-7	-8	-8
Other cash flow from investments	-	-	3	-14	-	-	-	-
Cash flows from investment activities	-17	-9	-10	-29	-13	-7	-8	-8
Free cash flows	-5	3	3	-14	6	15	22	23
Rights issues / buybacks	32	-6	-2	12	-	-	-	-
Changes in liabilities	-23	-	0	-1	-1	0	-16	-10
Dividends	-	-	-	-	-	-4	-4	-6
Other items	-	-	-	-	-	-1	-1	-1
Cash flows from financing activities	10	-6	-2	12	-1	-5	-20	-17
Cash flows	4	-3	1	-2	5	9	1	6
Net debt	0	-1	-3	12	7	-5	-6	-11

Source: Raketech Group Holding, EPB

Balance sheet

	2018	2019	2020	2021	2022	2023e	2024e	2025e
ASSETS								
Goodwill	0	0	0	4	1	1	1	1
Other intangible assets	66	73	81	124	131	143	139	135
Total fixed assets	66	74	81	128	132	144	140	136
Trade receivables	4	4	5	6	8	12	12	13
Cash and cash equivalents and short-term investments	8	4	5	3	8	20	21	26
Total current assets	12	8	10	9	16	31	32	39
TOTAL ASSETS	78	82	91	137	148	175	172	175
EQUITY AND LIABILITIES								
Equity	59	65	71	85	97	103	114	126
Total equity	59	65	71	85	97	103	114	126
Long-term interest-bearing liabilities	8	3	0	0	0	5	5	5
Other long-term liabilities	5	7	10	20	26	34	34	24
Total long-term liabilities	13	10	10	20	26	39	39	29
Short-term interest-bearing liabilities	0	0	2	15	15	10	10	10
Trade payables	4	2	2	3	4	6	7	8
Other current liabilities	3	5	6	15	6	18	2	2
Total current liabilities	7	7	10	32	25	34	20	20
TOTAL EQUITY AND LIABILITIES	78	82	91	137	148	175	172	175

Source: Raketech Group Holding, EPB

Growth and margins

	2018	2019	2020	2021	2022	2023e	2024e	2025e
Revenue growth	-	-6%	23%	31%	37%	48%	22%	10%
EBITDA growth, adjusted	-	0%	-5%	33%	24%	24%	17%	12%
EBIT growth, adjusted	-	-25%	-18%	38%	32%	7%	30%	21%
EPS growth, adjusted	-	57%	-19%	19%	9%	15%	58%	22%
Gross margin	91,6%	85,1%	73,0%	70,2%	70,0%	59,9%	57,4%	56,1%
EBITDA margin	50,5%	53,9%	41,7%	42,2%	38,2%	32,0%	30,8%	31,4%
EBITDA margin, adjusted	50,5%	53,9%	41,7%	42,2%	38,2%	32,0%	30,8%	31,4%
EBIT margin	43,8%	35,0%	23,3%	24,5%	23,6%	17,0%	18,1%	19,9%
EBIT margin, adjusted	43,8%	35,0%	23,3%	24,5%	23,6%	17,0%	18,1%	19,9%
Profit margin, adjusted	17,8%	29,9%	19,8%	18,9%	16,0%	12,4%	15,8%	17,5%

Source: Raketech Group Holding, EPB

Profitability

	2018	2019	2020	2021	2022	2023e	2024e	2025e
ROE, adjusted	Neg.	12%	9%	9%	9%	10%	14%	15%
ROCE, adjusted	Neg.	12%	10%	11%	12%	12%	14%	15%
ROIC, adjusted	Neg.	14%	10%	11%	12%	13%	17%	19%

Source: Raketech Group Holding, EPB

Capital efficiency

	2018	2019	2020	2021	2022	2023e	2024e	2025e
Trade receivables / total revenues	17%	17%	17%	16%	15%	15%	12%	12%
Trade payables / cost of sales	>100%	47%	31%	22%	27%	18%	18%	17%
Total current liabilities / total expenses	52%	64%	60%	>100%	78%	64%	30%	28%
Working capital / total revenues	-9%	-12%	-12%	-28%	-5%	-16%	2%	2%
Capital turnover rate	0,4x	0,3x	0,4x	0,4x	0,5x	0,7x	0,7x	0,7x

Source: Raketech Group Holding, EPB

Financial position

	2018	2019	2020	2021	2022	2023e	2024e	2025e
Net debt	0	-1	-3	12	7	-5	-6	-11
Equity asset ratio	75%	79%	78%	62%	65%	59%	66%	72%
Net debt/equity ratio	0,0x	0,0x	0,0x	0,1x	0,1x	0,0x	0,0x	-0,1x
Net debt / EBITDA	0,0x	-0,1x	-0,2x	0,7x	0,3x	-0,2x	-0,2x	-0,3x

Source: Raketech Group Holding, EPB

Share data

	2018	2019	2020	2021	2022	2023e	2024e	2025e
EPS	0,12	0,19	0,15	0,18	0,20	0,22	0,36	0,43
EPS, adjusted	0,12	0,19	0,15	0,18	0,20	0,22	0,36	0,43
FCF per share	-0,13	0,07	0,07	-0,34	0,13	0,35	0,51	0,55
Dividend per share	0,00	0,00	0,00	0,00	0,09	0,12	0,16	0,20
Equity per share	1,53	1,70	1,83	1,99	2,22	2,43	2,69	2,98
Number of shares at year-end, m	38,3	38,3	38,8	42,7	43,5	42,3	42,3	42,3
Number of shares after dilution, average	38,3	38,3	38,5	40,7	43,1	42,9	42,3	42,3

Source: Raketech Group Holding, EPB

Valuation

	2018	2019	2020	2021	2022	2023e	2024e	2025e
P/E, adjusted	16,2x	4,8x	7,1x	13,0x	8,2x	6,5x	4,1x	3,4x
Price/book value	1,3x	0,5x	0,6x	1,2x	0,7x	0,6x	0,5x	0,5x
P/FCF	Neg.	12,8x	15,6x	Neg.	12,1x	4,3x	2,9x	2,7x
FCF yield	Neg.	8%	6%	Neg.	8%	23%	35%	37%
Dividend yield	0,0%	0,0%	0,0%	0,0%	5,9%	7,9%	10,9%	13,3%
Payout ratio, adjusted	0,0%	0,0%	0,0%	0,0%	48,1%	51,6%	45,2%	45,3%
EV/Sales	2,9x	1,4x	1,3x	2,8x	1,4x	1,4x	1,2x	1,1x
EV/EBITDA, adjusted	5,6x	2,6x	3,0x	6,6x	3,7x	4,5x	3,8x	3,4x
EV/EBIT, adjusted	6,5x	3,9x	5,4x	11,4x	6,0x	8,4x	6,5x	5,3x
EV	73	33	37	107	74	111	111	111
Share price	1,9	0,9	1,1	2,3	1,6	16,8	16,8	16,8

Source: Raketech Group Holding, EPB

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