14-Nov-2024

Better Collective A/S (BETCO.SE)

Q3 2024 Earnings Call

MANAGEMENT DISCUSSION SECTION

Operator: Good day, and thank you for standing by. Welcome to the Better Collective Q3 2024 Presentation. At this time, all participants are in a listen-only mode. After this – after the speakers' presentation, there will be a question-and-answer session. [Operator Instructions] Please be advised that today's conference is being recorded.

I will now like to hand the conference over to your speaker today, Mikkel Much. Please go ahead.

Unverified Participant

Thank you. And hello, everyone. My name is Mikkel Munch-Jacobsgaard, and I'm the Vice President of Investor Relations Group Strategy and Corporate Communications here at Better Collective. Thank you for joining us today for our Q3 webcast. At this time it's hosted from our office in New York. I'm joined by our Co-Founder and Jesper Søgaard; and CFO, Flemming Pedersen, who will provide today's business update in connection with our Q3 report that was disclosed yesterday.

Please follow me to the next slide. We ask you to pay attention to this slide where we display our disclaimer regarding any forward-looking statements in today's webcast. Please turn to the next slide.

Here, you see today's agenda. Jesper will start by providing a business update, including some of the highlights of Q3, where after Flemming will take you through the financial performance before handing the word back to Jesper for key takeaways. As usual, we end the call with a Q&A session.

Now, let's get going. Please turn to the next page as I hand over the word to Jesper.

Unverified Participant

Thank you, Mikkel. Please turn to the next page. For today's webcast, we'll do things a little differently than usual, as our Q3 headline numbers were sent out on 24th of October in connection with us adjusting our annual financial guidance. On this slide, the new full year financial guidance is what you see in the blue bar to the right with revenue on top and EBITDA at the bottom.

I'll start by addressing recent developments and some of the tactical adjustments we're currently implementing. Better Collective has been on a strong path of growth for over two decades, both financially as well as organizationally, expanding the team significantly across many geographies. Our audience across our sports media network has surged from 7 million to over 400 million visits since 2018, a testament to the impact we've made in the digital sports media arena in the pursuit of becoming the leading digital sports media group.

Part of this growth has been through M&A, but also with strong underlying organic growth. Since Better Collective IPO-ed in 2018, we have, in particular, seen strong growth in the new markets that have opened across the Americas, in particular, many US states as well as Brazil. These new markets are still developing, and during Q3, we have experienced changing dynamics in both the US and Brazilian markets.

The changes to these markets have impacted Q3 performance as well as the outlook and have led us to lower our financial targets for the full year. This is the first downgrade of financial targets since our IPO in 2018. We have always taken pride in meeting our financial targets. So, this is not something we're taking lightly, and certainly not something we plan for. However, when we see changes that affects our business, we inform and take action. So, let me address the various components and how they affect our outlook.

I'll address the following. First, the US market. Here, we have seen a changing business landscape, not meeting our expectations.

Secondly, the Brazilian market. During the past few years, we have seen strong growth in this market. But in recent quarters, we have seen a marked retraction as market participants now prepare for the long awaited regulation to take place from January 1, 2025.

Thirdly, I'll speak to our short-term actions of implementing a cost reduction program of more than €50 million. This is done in order to balance the lower revenue expectations, short term, but also executing on synergies following many acquisitions.

And, fourth, despite the market changes we have seen, we're still confident in our long-term guidance reflecting our growth plans, including getting back to the M&A agenda.

I've been asked whether the changes we have encountered represents a structural shift to our strategy and business model. I want to assure you that it doesn't. We've seen unexpected changed market dynamics in two young markets that have been significant growth drivers in the past two to three years, and we've taken actions to address these changes.

The developments within our media partnerships since the Google policy update has been resilient and continuing with the same potential as before the update. Given there are no updates since when we reported in Q2, this will not be in focus today.

We still see great future potential in the Brazilian and US markets and the rest of our business remains very strong. We own some of the world's strongest sports and esports media brands within their niches that deliver strong exposure to our partners with world-class capabilities to run and monetize digital sports media. We continue to compound revenue share income, building for future sustainability and profitability, and we have a second to none talent base.

Personally, I'm very optimistic about the future of Better Collective. Let us start into the details, so please turn to the next page.

Starting with the US market. The first US state regulated online sports betting about six years ago and 30 states have since followed suit, all with different regulatory frameworks, and thereby different customer landscape. In the recent three years, the US market has been a significant growth driver for Better Collective, following a number of acquisitions that both allow us to tap into the performance marketing market and the more general sports media market with subscription services, advertising, and sponsorships.

When it comes to performance marketing, the US market has always been concentrated around few larger sportsbooks. There have been several new market entrants, as well as some leaving the market. We have also seen sportsbooks marketing activity fluctuate over time, not least in connection with new state openings and new brands launching. A big part of the revenue has historically been CPA based, which has allowed us to report strong revenue growth and earnings in 2022 and 2023 as we saw several state openings and big willingness to acquire customers on CPA payments.

A lot of the deal making takes place heading into the high season for sports or leading up to a new state opening. This season, we've seen low activity, in particular affecting CPA revenue, hence we've revisited our expectations. On the other hand, we continue to see success working with partners on revenue [ph] share (00:13:14). We have since the past to repeal in 2018 pushed for working on more long-term sustainable business models, i.e. revenue share as we do in the rest of the world. This is much more sustainable for both us and our customers, thereby aligning our interest.

We saw the first breakthrough of working with revenue share in the US during Q3 2022, and we have since worked on various types of business models involving revenue share, now, two years later, our partners acknowledged that this is a good model, allowing them to build their business in an efficient way with high predictability while allowing us to build significant value.

We've decided to do an extraordinary deep dive into our expectations for the deferred revenue build up. In the two-year period where we've been active in working on various types of revenue share contracts, we estimate that our US assets have [ph] sent (00:14:12) new depositing customers at a value of more than €155 million, where approximately €35 million have been reported as revenue. This leaves more than €120 million to be received and reported in coming years.

Even without this build up, we've been proud of our fast growth in what will likely become the world's, by far, largest sports betting market. When including this, we have seen an even stronger value creation in the US market where. in general, very few players have managed to be profitable. Despite market fluctuations, we believe the US market remains extremely valuable with high growth potential, and I'm very satisfied that we are so well positioned there. Flemming will come back with more details about this value build up later during the presentation. I will also come back to our announced cost reduction program. However, isolated for our North American business, we're adjusting the cost base to deliver minimum 20% reported EBITDA margin and minimum 35% when including continuous revenue share build up in the coming years. Please follow me to the next slide as we turn our focus towards the Brazilian market.

We have seen huge success in South America as Brazil now consists of approximately 20% of our total group revenue. Based on this success, and in anticipation of the market becoming a regulated market, we've made significant investments to establish ourselves in the best possible way, both through organic market growth investments and M&As. With the recent acquisition of Playmaker Capital being our biggest move in the region, as can be seen on this slide, we've managed to establish Better Collective as the company with the broadest reach when it comes to digital sports media in the region.

At the outset of 2024, we anticipated a highly active year leading up to the expected regulation, which has been [indiscernible] (00:16:16) for years. Following guidance from regulators throughout the year, we have noted that several sports books have reduced or even completely stopped spending in anticipation of the official regulation early next year.

This dynamic has affected Better Collective in two ways. Firstly, revenue share income has declined. And secondly, there's been a decrease in new depositing customers as partners have limited their marketing activity. We already mentioned this earlier this year, and the trend has accelerated in Q3.

While regulation is anticipated early next year, final decisions have not been made, leaving some uncertainties outstanding. Brazil remains a new and immature market, and Better Collective does expect the period after a potential launch to include changes and adjustments from a regulatory point of view, similar to other markets, post-launch, including local taxation. It is anticipated that approximately 100 sportsbooks will be granted licenses, creating a highly competitive market dynamic that offers a favorable business environment for Better Collective. We remain confident in the long term growth trajectory of the Brazilian market and is greatly positioned to grasp growth opportunities ahead. Please turn to the next slide as we shift focus to the initiated cost reduction program.

In the fast-evolving digital sports media landscape, adaptability is key, and we've initiated a review of our group's operational cost. These tactical adjustments and the decision to streamline our operations comes against the backdrop of 35 acquisitions combined with the changed market outlook and makes it important to right-size our business. Regrettably, as part of this process, more than 300 valued colleagues have left our team end of October, representing more than [ph] 15% (00:18:20) of our workforce.

I want to take a moment to acknowledge the contributions of these colleagues. Their hard work and dedication have been instrumental in building this company, and we remain grateful for their efforts in helping us reach where we are today. However, when we encounter changed market dynamics and/or shifts in the market outlook, it has always been our option to pull the brakes and readjust. This resilience and adaptability are the hallmarks of Better Collective, and I'm confident that we'll do the same in our current situation, continuing to thrive and grow.

Now, I hand over the word to Flemming for a review of the financial performance, as well as a deep dive into the past two years of revenue share build up in the US. Please turn to the next slide.

Unverified Participant

Thank you, Jesper. Yeah. Please follow me to the next slide.

During the third quarter, we saw an 8% increase in revenue reaching €81 million, with a 6% decline in organic growth. While we have consistently seen significant organic growth in the past, this quarter was influenced by the factors previously highlighted by Jesper.

In our North American operations, the primary impact was on CPA revenue in the performance marketing business, whereas in Europe and rest of the world, the revenue share income was affected by the developments in Brazil.

EBITDA rose by 14%, totaling €22 million. Please follow me to the next slide.

Our recurring revenue grew by 14% to €53 million, which made up 65% of group revenues. The growth came mainly from M&A as we have acquired asset [indiscernible] (00:20:10) businesses that adds to the recurring revenue. The developments in Brazil negatively impacted the revenue [indiscernible] (00:20:17) revenue. Please follow me to the next slide.

This slide highlights the substantial growth in our pure revenue share income since our IPO in 2018, which has compounded significantly over the years and remains a central focus for Better Collective. A key aspect of the future growth in this revenue stream is the ongoing transition in our North American business towards a recurring revenue share model. The transition was initiated two years ago, and this quarter, we have decided to provide an update on the value that has been achieved during this period in order to give you a sense of how we're thinking internally about operating and steering our business. Please proceed to the next slide.

As Jesper mentioned, the US market is still in its early stages with the first stage going live six years ago and most other states gradually following since.

Let me give you a bit of background on our US business. [indiscernible] (00:21:17) in 2018, Better Collective's North American operations have seen remarkable growth scaling from zero to over €100 million in revenue, with strong margins even before accounting for the revenue share growth. This rapid expansion began in 2019 when Better Collective made strategic acquisitions in the US, adding brands like RotoGrinders, US Bets, Sports Handle, VegasInsider, and ScoresAndOdds to its portfolio as sports betting became legal.

In 2021, our growth momentum continued with the acquisition of Action Network. The expansion extended through Canada in 2022 with the acquisition of Canada Sports Betting. During the same year, Better Collective established key media partnerships with prominent outlets such as The New York Post.

By 2023, Better Collective acquired Playmaker HQ, a sports media platform fueled by a strong social media presence. The expansion [indiscernible] (00:22:16) proceeded into 2024 with the acquisition of Playmaker Capital, a digital sports media group operating across US, Canada, and South America.

Following the PASPA repeal in 2018, CPA, meaning upfront payments, has been the dominant contractual model with our partners enable us to build a robust US business as illustrated on this slide. However, CPA revenues come with the caveats such as decreased partner activity when there are fewer state launches, sporting events, and their strategic priorities, etcetera.

As Better Collective – at Better Collective, we have always preferred revenue share over CPA because it offers us higher customer lifetime values while also aligning us with the market and partner growth. While the graph might suggest that our North American revenue growth has plateaued, it is crucial to consider the ongoing transition to the revenue share model. Please proceed to the next slide for visual presentation of our revenue share growth.

As of this quarter, we estimate that the strategic shift has resulted in an accumulated database with customer lifetime values of more than €150 million. A portion of this has already been recognized as revenue through hybrid deals and [ph] some (00:23:37) pure revenue share income. As a reminder, hybrid deals in the US include a prepayment of revenue share, which pushes out the revenue share even further into the future. After these upfront payments and some revenue share, we are left with an estimated more than €120 million yet to be recognized in the future.

Additionally, we continue to deliver new depositing customers to our partners, steadily increasing the value in our revenue share databases. The graph on the slide illustrates that the value transition towards our partners was generated between 2022 and 2024. However, recognition of this value will occur in the future. This means that our North American business has, on a pro forma basis, created significantly more value over the past two years due to the nature of this type of value and revenue generation.

We're managing our business by analyzing the net new revenue generation and we allocate resources aligned for that. On the table on this slide, you can see the pro forma revenue and EBITDA margins when including the revenue share build up, of course, presenting a quite different picture than just looking at the reported revenue and earnings. Please turn to the next slide.

During 2025, Better Collective expects to recognize around €10 million to €15 million in pure revenue share income in the US market without factoring in hybrid contracts and expect this to increase in the future. Following the recent changes in the market dynamics, we have decided to restructure the US business to ensure continued sustainability. We aim for that the lower North American business will deliver a minimum 20% reported EBITDA margin and minimum 35% pro forma EBITDA margin, when incorporating the continued revenue share build up. As we navigate this transition, the commitment to adapting to the US market shifting landscape remains in focus.

In summary, the US market is extremely valuable, and we have one of the – and we are one of the companies best positioned to grasp future opportunities here. We strongly believe that the market will continue to expand, and we remain highly committed to capture opportunities within. We have acknowledged that the market is different from other gambling markets. However, we have demonstrated that we can navigate this. Please turn to the next slide where I hand the word back to Jesper.

Unverified Participant

Following our recent trading update, we now expect a €355 million to €375 million in revenues and €100 million to €110 million in EBITDA, as well as below 3 times net debt to EBITDA. Furthermore, our long-term targets remain unchanged. This assumes a 20% growth CAGR from 2023 to 2027, as well as margins of 35% to 45% in 2027. Lastly, net debt to EBITDA will stay below 3. This guide – this guidance implies strong growth in the coming years. Even after the changes to the short-term guidance and uncertainties relating to selected markets, I believe we will see growth in the coming years, including M&A, which still is an important part of our growth agenda. Timing just needs to be right. Please turn to the last slide.

In conclusion, it's important to note that nothing structural has changed for Better Collective and the new markets in the Americas are expected to be significant growth drivers in the future. Both markets remain young markets where we have seen strong growth in the past years. I'm proud to look back on how we have approached the markets through many changing dynamics, all while remaining a strong and profitable business as one of the very few players in this industry.

We continue to operate in robust, underlying growth markets. We recognize that when market dynamics shift adaptation and adjustments are essential, and our flexible operating model allows us to do just that. Our strong financial position, backed by substantial recurring revenue, assures us that we can navigate these changes and emerge even stronger. With this approach, we're confidently positioning ourselves for the next chapter of growth.

Lastly, I want to use the opportunity to extend a big thank you to my incredible colleagues, our shareholders, partners, and other stakeholders for your unwavering support. Despite current times presenting some headwinds, we're adapting and building a resilient future together.

Thank you for listening in. And we now open for the Q&A session.

QUESTION AND ANSWER SECTION

Operator: Thank you. [Operator Instructions] We will now take the first question from the line of Sebastian Grave from Nordea. Please go ahead.

Q

Hi, Jesper, Flemming, and Mikkel, and thank you for taking my questions. First, I would like to ask in regards to the US. So, Jesper, you talk about a changing business market not meeting your expectations. You talked about overall partner activity having decreased, but, I guess, with the market still expanding, I missed some more details on why you see this low activity. So, maybe you could help me here or be a little more specific, so we can eliminate any market speculation. Thank you.

A

Well, so the low activity that we mentioned in the report relates to the commercial developments with partners in the US. So, it's specifically there where we have right now experienced a bit of headwind, but it really doesn't change sort of the feeling we have about the position in the US which we, in the last more or less three to four years have build up by acquisitions and continued investment in our products and brand there. So, we have a very significant audience and great products for both the sports media interested people, as well as the sports betting passionate people. So, the position we feel is great and considering the outlook of this market, I feel we're in a very exciting position where we can grasp those opportunities that will present themselves with more states coming with changes to – with new entrants to the market. So, I feel really good about the position we're in in the US. But, yes, we experienced some headwinds right now.

Q

Okay. Thank you. That's fair. My next question is on your cost reduction program. So, can you help me square the €50 million OpEx reduction target with the 300 layoffs? So, to me, that sounds like fairly highly – a fairly high implied cost per employee. And also, I guess, what is more important here is what is sort of the OpEx base starting point that we should deduct the €50 million from? So, will Q2 times 4, i.e., €165 million, would that be sort of a fair starting point?

A

Yeah. Thanks for that, Sebastian. I think I'll hand this question to Flemming.

A

Yeah. I think you can say the cost reduction program now we have announced that is, of course, consist of a reduction in employees – number of employees and salaries and also a lot of other cost items that we have decided to reduce spend on. So, it is a mix of the two. I don't think we would give sort of a starting line for this. I can say that the Q3 numbers are lower than normal because, as you can imagine, we also have variable payments that when we don't meet our targets, will not be paid out. So, Q3 is lower – has a lower base than normal. So, the €50 million is basically what we are targeting as a mix of salary reductions and a lot of other specific cost items that has been identified.

Q

Okay. Thank you for that, Flemming. And maybe staying on your cost base here a little bit. So, you stated in the report that you will safeguard direct costs within paid media and media partnerships. So, I mean, should this be seen as that we should expect growth be driven from these verticals going forward? And also, could you help me sort of square how will this impact your margin profile going forward? Is it fair to assume that your SG&A base will be relatively smaller and your gross margin as well will be relatively lower given this sort of change in setup?

A

Yes, Sebastian, I'll probably speak to the first part related to sort of the growth areas. And you are right, like we have areas in the business that are well performing and where we see continued very high growth potential. And then we have, as mentioned, the US with current headwinds but no change to the long term potential, but also acknowledging sort of this current headwind we don't know exactly when that will end. So, we've adjusted the US business, so it's profitable and solid, and we're greatly positioned in the market. So, for the long term growth, we definitely think that market will also deliver strong growth. And we have also spoken to the Brazilian market where there is a dampening due to the expected market regulation happening 1st of January next year. And, again, for the long term aspect, we're very excited about that growth potential and outlook for the Brazilian market. And then maybe, Flemming, on the margin profile?

A

Yes, we have, you can say, our long term guidance is really tying into EBITDA margin between 35% and 40% and that is how we are thinking. Also, hence, what we just discussed and presented on the US market, we are really, let's say, structuring and resourcing our operations to meet these margin targets. So, the cost reduction is, of course, you can say also, to short term reflection, but also to meet the long term guidance and allocate resources to specific areas where we see high growth, as specifically mentioned, for esports, for media partnerships, and also to our paid media, where we have a lot of direct cost.

Q

Got it. That's very clear. Okay. Thank you for taking my questions.

Operator: Thank you. We will now take the next question from the line of Oscar Rönnkvist from ABG Sundal Collier. Please go ahead.

Q

Good afternoon. And thanks for taking my questions. So, I have quite a few, so please stop me if I would ask too many. Just the first one had a question just on the magnitude of the drop in guidance and on the implicit H2 guidance, it's quite – cut quite significantly. You were already now having seen one-and-a-half months of H2 when you reiterated the guidance last time. So, I just wondered if there is anything sort of more specific related to the guidance downgrade, such as, you know, is there any specific clients that has accounted for a big part of revenue that has left or cut their spending a lot, or is it just sort of on a broader basis just in Brazil and in North America that you have seen the weaker-than-expected performance?

A

Yeah. So, as we [indiscernible] (00:36:15) and have spoken to is it it's sort of across lower commercial activities that we are experiencing. And in terms of the timing, obviously, at the start of the NFL and sort of the first part of the NFL is quite crucial in the commercial landscape for the US business.

Q

All right. And then the Brazilian slowdown, I think you've talked about that already in the Q1 report. And I think you also mentioned that in the Q2 report. So, I mean, I guess that, you know, you have much of the revenue stemming from revenue share accounts. So, has the underlying GGR from operators say that that significantly into Q3 and Q4 or how should we think about the Brazilian sort of gradual slowdown throughout the year?

A

Yeah, it's right what would you say there, Oscar, that we have, throughout the year, seen sort of a slowdown and then we have seen an acceleration for Q3 in this sort of dampening of the market affecting both the NDC intake and the revenue share activity that we are seeing from that market. But, again, the Brazilian market is one where we are truly excited about the prospects of this. And to the, like, the experience of regulated market that we didn't expect such an acceleration, but again, with with licenses being sort of – being applied for right now and the regulators mentioning that that they want sort of a market to [indiscernible] (00:37:55) soon, it's natural to see that dampening.

Q

All right. Then I just have a final question on Brazil. So, as I alluded to just recently, I think, you know, Brazil mainly on rev share account. So, the contracts that you already have with Brazilian operators that are operating unregulated at the moment, when that markets goes live, are those contracts still valid or does those sort of NDCs need to be renewed when that market launches again?

A

They will still be valid.

Q

All right. Perfect. My next question would be on the implied Q4 sales guidance. So, there is a €20 million range which, you know, implies either, you know, minus 1% or plus 23% quarter-over-quarter growth. So, just wondering if you could elaborate a little bit, I mean, I guess that you don't want to guide on the guidance, but just the wideness of the range that, you know, can be maybe compared to Gambling.com just released their implicit guidance and I think you have like a 7% wide span for Q4 revenue on a sequential basis. So, just wondering if there's any particular reason behind the wideness of the span?

A

Yeah. Basically, we cannot give any further comments to our guidance. It reflects sort of, you can say, the span that we are seeing and also you can say, the dynamics in our business, and, of course, cannot comment really on other companies.

Q

Got it. Next, just if there's anything more to comment on Playmaker Capital. So, it was obviously, as wrote the trend's formational acquisition so – and you know pretty large in size and I think before that you guided for flat profit and revenue for the first year. And I think you say that the remainder of the group is performing well, and I know that you have a very long term oriented mind. So, just wondered if you wanted to get to know if you could elaborate anything on the financials for Playmaker Capital during the first, I think, it's now nine months since you consolidated the business. Thanks.

A

I think we have generally significantly improved our position in both North America, but in particular, South America with with Playmaker Capital. And to the part of the Brazilian market soon launching in a regulated state, Playmaker Capital is crucial in that position we have now and we see it also in other of the South American countries that we're now a combined market leader in terms of digital sports media. So, for the long term ambition that we have that we want to own market leading digital sports media brands in the most exciting markets that will grow in the coming years, it's really spot on for us with Playmaker Capital and truly have given us a great position in these markets.

Q

Got it. Thank you. Next, just on CapEx, it was a little bit higher in Q3 comparing to few quarters previously. And then adjust for the business combinations and also M&A related intangible assets. So, both a little bit on [indiscernible] (00:41:32), but mainly I think my question would be on the other investments in intangible assets, which I think is €14 million during the first three quarters, which is quite a big step up from the previous years where it has been very close to zero. So, just wanted to get know if that is capitalized media partnerships still and also what your plans are going forward with the intangible CapEx related to the media partnerships, if that should fade or if we could still expect that to be a significant CapEx item in the quarters to come.

A

Thanks, Oscar. And right before I think Flemming answers that, I will ask you to, if that's okay, jump back in the queue because we still have a queue here online. Flemming?

Q

Yes.

A

Yeah. Thanks also, Oscar. As we also discussed yesterday, we have expanded some of our media partnerships where we see great success with and you can say part of the, you can say, the upfront when we expand those in time, we treat them as intangible assets [indiscernible] (00:42:42). We have also acquired – we have done a small acquisition of social media assets of $7 million in the quarter, as we stated in the report. And then we have, including also what you can see in the cash flow statement, we have €8.5 million relating to the last earn-out payment for FUTBIN that also has been shown on the group of intangible additions. [indiscernible] (00:43:11)

Q

Thank you. I'll...

A

Yeah. Thanks, Oscar, for your questions. Great.

Q

Yeah. Thank you very much. I'll jump back.

Operator: Thank you. We will now take the next question from the line of Hjalmar Ahlberg from RedEye. Please go ahead.

Q

Thank you. Maybe just a question on the US. Could you say, I mean, if this is kind of similar development in all states or are there any difference between the different states?

A

Yeah, it's a general low activity that we experienced in the US business, so it's not specific to one state.

Q

Okay. And can you give any comment on, I mean, is it like a change terms? So, like, I guess CPAs are lower or they will not paying CPAs? And in terms of revenue share, has there been any change on how those contracts are – on the terms of those contract as well?

A

Well, we'll not comment on individual contracts, sort of developments and negotiations. But just coming back to the point where the position we have in this market is, one, where we own really strong brands and, two, experience great demand for that. And we're able to cater to customers in many ways, both via the performance marketing model delivering customers, but also quite important, as sponsorship deals via the podcast shows we present an overall exposure on a very big audience brands that we have. So, it's sort of a good position we feel and very diverse also in the offerings we have for our partners and where we overall sense good demand.

Q

All right. And the question on the €120 million unrecognized revenue share [indiscernible] (00:45:15) on this value, is it based on the existing current development in US or how is this calculated?

A

Yeah, we do that that across our business all the time where we, you can say, analyze and estimate customer lifetime values, if that's something that we have, you can say, included in our reporting before. But, of course, when we are in such a [ph] transition (00:45:43) that we see in the US market, we have disclosed at this time. It is, you could say, we have a big team of business intelligence analysts that basically analyze all of the data that we get in over time, analyst player cohorts in different [indiscernible] (00:45:58) and from different operators. So, we have a long standing knowledge about the values. With the US and North American P&L, this has existed for a short time only, so now we have analyzed, we have two years of data pool from several hundred thousands of NDCs that we have sent across the past two years. So, it is basically an analysis of those data and the actual activity that we see in these cohorts.

Q

Okay, thanks. And the final question on the 2027 targets. Can you give some color if that means now that you need more M&A to achieve this, or do you think growth will kind of catch up and be higher in the later stage of this timeframe?

A

Yeah. So, again, coming back to the positions we have in the different markets and the outlook we have of these markets, we still see the same kind of long term potential for these markets. And obviously, with a bit of headwind, the headwind we're experiencing in the US right now is, of course, not making things easier. But we believe long term that this market will present a great opportunity for us. And then on M&A, when we look historically to the development of Better Collective, M&A has been completely instrumental to the position we have in this market and also a big part of the growth we have achieved and nothing has changed there.

And for the long term targets, we definitely believe that we will be executing an attractive and important M&A for the company leading up to the 2027 year.

Q

Right. Thank you.

Operator: Thank you. We will now take the next question from the line of Sebastian Grave from Nordea. Please go ahead.

Q

Hi again, guys, and thank you for taking my follow up. So, circling back to the US [indiscernible] (00:48:11) database, first of all, we appreciate the sort of the color here. Could you just remind us how many NDCs have you send on revenue share contracts in the US just to get sort of a sense of the value per revenue share NDC. And also maybe talk around the assumptions around the time lag between the customer acquisition and when you expect to start recognizing revenue share in the US cohort. Does this is assumption square with the European part of the business or is it fair to assume – or do you sort of work with different assumptions across different cohorts?

A

Yeah. What we basically do is that we, in every geography, is the best, and we analyze what we see concretely in these databases. So, it's analyzed on actual behavior. We have sent several hundred thousands of NDCs across the past two years on revenue share contracts. We have – we will not give or have not disclosed the exact number also as we see that as a commercial insight that we want to keep for ourselves. So – but that is, you can say, actual behavior on the player deposits, activity, churn rates, etcetera. So, that's – yeah. So, that's basically how we are assessing that. And then just back to you Jesper.

A

Yeah, yeah. I just want to add on the insights we have related to CLV, so player values in different markets and varying also sort of by brand, etcetera, these are quite unique insights that we historically have had a great advantage of knowing in many parts. So, for the paid media business, this is absolutely crucial in setting the spend levels for how we acquire customers and buy audience. So, it's really unique insights that we have across many markets that we can utilize in the paid business, as well as we can use it in sort of the acquisitions when we assess the value and quality of a business.

Q

Yeah, no. Okay. Thanks so much for the details here. But in terms sort of the time lag in particular for the US business. So, I mean, just given the fact that the US seems to be a very competitive market, which should mean higher sign of bonuses, all else equal, is it fair to assume that the sort of the time lag between acquisition and revenue recognition is all else equal a little bit longer in the US compared to other parts of your portfolio, or is that far fetched?

A

No, it's actually correct. And I think actually we have spoken to that on different occasions, starting back with our Capital Markets Day in 2023. The US market dynamics bodes for a longer period of time before we see players become profitable. We have mentioned between 18 and 24 months also due to the, in some cases, this hybrid component where we get a revenue upfront part of it at least. So – and as you can say to your question on when we will see something, we are seeing something already on pure revenue share. So, it is a part of our revenue base already. But, of course, it takes time before it becomes material, as we also have seen in other markets. And now we have mentioned specifically for next year with the model we expect that pure revenue share would account for €10 million to €15 million.

Q

Thank you a lot.

Operator: Thank you. We will now take the next question from the line of Oscar Rönnkvist from ABG Sundal Collier. Please go ahead.

Q

Thank you very much. Hi, again. Just two very quick ones. Sorry. So, just the first one on NDCs on revenue share, I think it's down 14% year-over-year. Can you say anything on the impact from the Brazil weakness of this number? And also approximately if you could say anything about how much the acquisitions are contributing to this number? Thanks.

A

So, it relates to Brazil the slowdown that we will see there to the tune of of acquisition's effect, we are seeing increased [indiscernible] (00:53:03) but it's still – it's not material. So, it's, you can say, the existing business that is delivering the NDC performance right now.

Q

Okay. Thank you. And just a final one. If you could say anything on your casino exposure at the moment. And also if you have made any efforts to ramp that up recently. So, I'm just asking specifically because one other affiliate company has stated increased competition in that segment. Thanks.

A

Well, we have – in our total mix of revenue, we have casino revenue stemming from basically sports betting players also consume the casino product. And maybe sort of going back to the roots of Better Collective, when Christian I founded the company, we actually started out with a small casino portal. So, it's a line of business that we have in Better Collective and know well but the focus is on on the sports betting and digital sports media opportunity that we see. But it's, like, we see revenue from casino, we know that business and that is actually where Better Collective started out in the very early days.

Q

All right. So, I think it was 25% exposure at the IPO. Is it fair to assume that that is much lower at the moment?

A

We don't guide on that, Oscar.

Q

All right. Perfect. Thank you very much.

Operator: Thank you. I would like to hand back over for any webcast questions.

A

Yes. Thank you. And thank you for all the questions up until now. I think the first one here is, could you explain how you can do such a big cost savings program while only reducing your staff with 15%?

A

Yeah, Flemming here. I can try to answer that. I think we touched upon it in some of our previous question line because part of the cost reduction program is, of course, salaries. So, it's not sort of we can just take the number of headcounts and then equate that to the full cost program. There are many other cost items that we are reducing on. So, that is a connection we cannot make. I've made the comment that specifically for quarter three, we see a lower salary base because of variable salaries not being applicable anymore. We're not meeting the guidance at how we have organized the business. So, that's a low base or starting point to begin with.

A

Thank you for that, Flemming. And then there's also a question related to the intangible assets during the quarter, but I think you've already spoken to that.

A

Yeah, I specified the €20 million that is mentioned in the cash flow statement in a previous answer.

A

Thank you. And then we have a question specifically on some of our partner activities. And as Jesper has stated earlier on this call, we don't comment on single customer commercials.

Unverified Participant

And with that, we actually don't have more questions for now. So, thank you all for listening in and for showing interest in Better Collective.

Operator: This concludes today's conference call. Thank you for participating. You may now disconnect.