“RateGain Travel Technologies Limited

Acquisition Conference Call”

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Moderator: Ladies and gentlemen, good day and welcome to RateGain Travel Technologies Limited Conference Call to Discuss the Acquisition of Adara Inc. This conference call may contain forward-looking statements about the company, which are based on the beliefs, opinions and expectations of the company as on date of this call. These statements are not the guarantees of future performance and involve risks and uncertainties that are difficult to predict.

As a reminder, all participant lines will be in the listen-only mode and there will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during the conference call, please signal an operator by pressing star then zero on touchtone phone. Please note that this conference is being recorded. The call is specific to the acquisition and request the participants not to discuss quarter gone-by.

I now hand the conference over to Mr. Bhanu Chopra, Chairman and Managing Director. Thank you and over to you, sir.

Bhanu Chopra: Thank you so much. A very good afternoon to everyone and thank you very much for joining this call to discuss the acquisition of Adara. Joining me on the call are: Mr. Tanmaya Das, CFO of RateGain, Mr. Divik Anand, our Head for Investor Relations; and Thomas Joshua, Company Secretary of RateGain. And alongside, we have our Investor Relations partner Strategic Growth Advisors.

On the outset, I want to begin by wishing each of you and your family, a very happy 2023 and wish that each of us have a great year in the market. While I understand, you have not gotten enough notice, but I hope you've had a chance to go through our press release and presentation that are available on the stock exchanges. I'm very excited to announce that as of 2nd January 2023, RateGain has entered into an agreement to acquire Adara via an asset purchase agreement.

With digital channels playing a significant role in influencing travel decisions, it is critical for marketers and commercial teams to look at ways to capture intent accurately and target the right audience to increase ROI on their marketing investments. Based in Silicon Valley, Adara is a global leader in providing AI-powered travel intent data to a global blue-chip customer base of over 300 customers, powering digital marketing, programmatic advertising, campaign measurement and CRM and retention.

Founded in 2009, Adara today is a trusted partner in data collection and management for helping enterprise customers in travel and hospitality to win in the fast-paced digital economy by providing predictive intelligence for optimal consumer engagement to drive a higher return on ad-spend, which is also referred to as RoAS. Adara has two primary revenue streams, similar to our DaaS, SaaS-based and self-used application that provides travel intent-based customer audience segments to power digital marketing campaigns.

The other business and revenue stream is media, which is similar to our Martech where they provide performance media solutions, managing the performance marketing campaigns for customers on the basis of intent data generated through their platform. Adara's key differentiator is its access to permission travel intent data from over 275 enterprise customers, including the world's top travel and hospitality players, as well as destination marketing organization.

The company was started by Charles Mi, a computer science major from Stanford University, who was part of the initial team at IBM that worked in establishing an anti-money laundering system that verified over 36 million entities in the world. This inspired him to move towards creating a platform that helps brand use consumer intelligence ethically with their permission. Once completed, this acquisition set the tone for RateGain to form the world's most comprehensive travel intent and data platform powered by AI.

Together Adara and RateGain will become the most comprehensive travel intent platform that processes over 200 billion ARI update, manages close to 30 billion data points and works with 700-plus partners across 100-plus countries, giving the industry a single source to understand intent, target them and convert them.

There are some key financial metrics around the agreement to acquire Adara. Adara reported a revenue of $27.4 million, that is about INR 204.4 crores in FY '22, a Y-o-Y growth of 29%. The revenue reported in the first half of FY '23 stands at $13.1 million, that is INR 103 crores, which is flat Y-o-Y. The company is currently at breakeven on EBITDA.

RateGain has entered into an agreement to acquire the substantial assets of Adara at a price of $16.1 million, i.e. INR 172.4 crores, the $14.5 million to be paid upfront and balance to be paid in one year. This comes to about 0.6x of FY '22 revenue. We expect the Adara business to grow at 15% in FY '24 as we look to leverage RateGain's global sales team to push growth.

We expect to increase the operating margins of Adara to 15% as we look at some immediate cost savings and further cost rationalization to be realized post integration in FY '24. We'll be incorporating the Co-Founder and CEO, Charles Mi along with an exceptionally talented team of 50 members into RateGain.

We are extremely excited about this opportunity to strengthen and consolidate RateGain's position across commercial teams and leading hotel chains, airlines and car rental companies, which work both with Adara and RateGain, as well as give access to a niche segment of 50-plus destinations marketing organizations in the United States.

With this, I'd like to open it up now for some questions. Given the call is around Adara acquisition, we'd request everyone to ask questions around this only and not Q3, for the quarter gone by. Thank you.

Moderator: First question is from the line of Ankit Kanodia from Smart Sync Services.

Ankit Kanodia: My first question is related to the valuation and also understanding of revenue details of your company, which you have acquired Adara. So it is interesting to see that you have acquired it at close to 0.6x times the sale, whereas your own company is trading at around 7x times sales. So, it would be great, if you can give some more color into the type of revenue, how much of it is product is, how much is service or any licensing revenue that would really help us?

Tanmaya Das: As Bhanu talked about, this is a business which operates in both data as a service and as well as in Martech division, so the revenues are split between DaaS and Martech equally, like 50% in DaaS and 50% in Martech. Most of data business is subscription in nature and most of Martech business is usage-based.

You talked about the valuation, look, this is a great time to pick-up such assets because many companies are coming through the horror times of COVID. Some companies have not turned itself back to the pre-COVID levels and struggling and we looked at such assets because we created a big pipeline of such assets, which we can really turn them around and bring them back to their glory days. And as we said, the valuations are really attractive at this point of time, especially in this segment.

Ankit Kanodia: Thank you, that really helps. And if you can give me more color as to how much of this is any ballpark number if you can share, product related and how much is service related in terms of percentage?

Tanmaya Das: Well, there is no service component, it's kind of platform. So as I said, 50% of its revenue is data revenue, which is primarily subscription-based revenue. And the Martech revenue is more around media. The cost is not linear to the revenue. The gross margins in these businesses in data revenue is around 90% and the media revenue is around 65%. So it consolidated gross margin of 80% is at what this business is operating at this point of time.

Ankit Kanodia: And my next question would be on the cost. I'm assuming just like in case of DHISCO which we mentioned earlier that we could quickly rationalize the cost and make it profitable in a very quick time. So what are the measures we are taking and if you can give more details on the cost structure as to how do you see that going forward for this company?

Tanmaya Das: So I think as you know, the company is based in Silicon Valley. So the cost base is high as compared to the Indian cost base and we can really get a significant amount of cost arbitrage. Our immediate target is to consolidate shared services like Finance, HR, Marketing in next 90 days, so that we get a good amount of savings on the way. The plan is already ready. So, we expect in 90 days, we can bring the company to a 10% EBITDA margin and in FY '24, we target a 15% margin.

Ankit Kanodia: And any improvement on the tech and development cost as we did in the case of DHISCO, where I think we moved the servers from US to India and it helped us tremendously in saving costs?

Tanmaya Das: Yes, all will be evaluated. All are in the plans that, obviously the cost arbitrage is significant. But I think the first 90 days, we are targeting the shared services to be consolidated and probably in the next six months' time, we'll see all businesses getting consolidated and offshored as much as possible.

Moderator: The next question is from the line of Satish Saraf from Tusk Investments.

Satish Saraf: Just wanted to know RateGain and Adara combined, how does fiscal '24 look like, we get the guidance on 15% EBITDA, overall if you could just help us with in terms of sales and EBITDA margins in FY '24 for the combined entity?

Tanmaya Das: So before FY '24, let me give you color of first Q4 and FY '23. Like FY '23 if you look, we are acquiring Adara in Q4 and obviously, there will be some transaction costs and transition costs in first 90 days when we are trying to offshore a lot of jobs back to India. So I see, Q4 will have some margin pressure because of Adara, but good news is the organic RateGain business is doing pretty well and it will be around 20% EBITDA margin.

Having said that, if I consolidate Adara and RateGain will be between 14% to 15% EBITDA margin during FY '23, which is way above than what guidance we had given at the start of the year around 12% to 13% margin.

In FY '24, we are in route of 30% organic growth in RateGain and Adara we expect to grow around 15%. So, the revenues again, I will be coming back with a more robust guidelines next quarter as we see how the first 90 days pan out. But I think we expect revenues should be closer to around INR 875 crores to INR 900 crores in FY '24 with a 200-300 basis point improvement in margins, which should be around between 17% to 18% margin in FY '24, including Adara.

Satish Saraf: So on the Martech's front for the Adara, how do you plan to integrate the current RateGain offering on Adara?

Bhanu Chopra: So as you know, our existing Martech offering is around doing digital marketing and brand engagement on behalf of these large travel and hospitality brands. And what Adara does is makes that digital marketing more intelligent by adding this layer of travel intent. Because it has this unique intent-based audiences that marketers can access for their digital marketing strategies across a multitude of digital platforms, including programmatic, social search, video, et cetera. So we will be able to add that layer of intelligence to make digital marketing more effective, thus delivering a better return on ad spend. So basically, it's an additional layer on top of our digital marketing to drive more value for our customers.

Moderator: The next question is from the line of Sameer Dosani from ICICI Prudential Asset Management.

Sameer Dosani: Looking at your filings. So if I look at FY '20 revenue for this company, I think the revenue was around $100 million, and then it fell to, I think, to a lower number, around $20 million in FY '21. So if you can just explain what happened there in this company?

Bhanu Chopra: Actually, it's very simple. As you know, just like RateGain, this company focused on travel and hospitality. And as you know, the key event in calendar year '20 was COVID. So just like RateGain, we were down quite significantly on our revenues also and so was this company. And unfortunately, because as Tanmaya mentioned, the company is Silicon Valley based has a very, very high cost structure was always loss-making since the history of the company, they could never recover because of the cash flow issues that they had. And in our hands, we feel very confident because of the cost arbitrage that we will be able to utilize and also leverage a large sales and marketing team that we can get a lot of this business recovered while making profitable growth.

Sameer Dosani: So this company had to let go some of the customers, is that what happened and we would be going back to those customers to pitch the same service, is that something that is the plan?

Bhanu Chopra: Yes. That's exactly the plan. So when COVID happened as most of the hotels and travel industry were shut, you know that's why you see a huge deterioration in revenues. But as the industry came back, they were unable to really go back and get a lot of their business because they had to retrench staff and they were never able to recover, because they couldn't obtain additional funding. And we've been in the conversation with this company for a couple of years now. It's something that I've noted that the M&A is a corner stone of our growth strategy, and it's a game of patience as well. So, we were waiting for the right opportunity to strike the deal at the right value. But the company was not really able to recover because of the cash flow issues.

But you are absolutely right. Our goal is now to go back to some of these large hotel chains and car rental companies that are already our customers, have a huge appreciation for the Adara asset as well as the product and capability. And Adara has, in this area of travel intent and the digital audiences that they provide, they have a huge branding amongst the large customers. And prior to doing the deal, we spoke to most of them, and they were very excited that they could now come to us and have everything under one platform.

Sameer Dosani: And since you spoke about it, you would have taken those approvals or maybe just confirmation from their clients that they will remain after this M&A is executed, right?

Bhanu Chopra: That's correct.

Moderator: The next question is from the line of Dhruv Bhatia from Bank of India Investment Managers.

Dhruv Bhatia: When you mentioned that you'll get access to permission travel intent data. Could you just a little bit elaborate what do you mean by that?

Bhanu Chopra: Yes. So, what Adara does, is they have partnerships with over 275 global brands in the travel and hospitality arena, where they basically install their SDKs on these websites of all the top travel and hospitality companies, and they are able to track all the information on these websites that is happening from a user behavior. And so, in the data partnerships that they have created with all the top brands, and that's how they collect the data.

Dhruv Bhatia: And will this data, you can obviously access that data under the merged entity, does that add much more value to you as RateGain standalone?

Bhanu Chopra: Yes. It is of significant value because now we have 1.7 billion profiles. So most likely, we probably also have information on, somebody like you on, if you're going and searching on Marriott's website to book a stay in Mumbai and then you're going on Trivago to do a price comparison on the dates, then we can build like a customer journey or you to know what is your travel intent, when to travel and where to travel. And that data then is tokenized, meaning anonymized. So, while we have the data, but we can't really access due to data privacy issues, we can't access it, but we can share that data with different marketers for them to be able to personalize the offers to you.

And that's something that is part of our Martech offering, which is when we are doing digital marketing, now we can do a lot more focused marketing because, for instance, in your example, we know you're planning to go to Mumbai in the month of January. So, when you are going to different websites, you must have noticed that they are at chasing you, from different travel companies. And my guess is maybe those companies are using Adara platform to be able to offer that personalized targeting.

Dhruv Bhatia: And the second is, what would be the overlap of the customers on a revenue basis for Adara and RateGain together? I mean these top 5 customers and my understanding would be a high mix for Adara. Are there new customers that you are also servicing?

Bhanu Chopra: Yes. So currently across the three big verticals of hotels, car rental companies and airlines, the overlap is about 10%. But as I noted earlier, when they were 100 million in revenue, which is three years ago, a significant part of their revenue came from the big hotel chain. And so, our goal is to go back to those hotel chains and revive and reactivate a lot of the work that Adara was doing with these big chains. So, we're quite hopeful, and given the relationships and the trust that we have with the large chains, the overlap should become much larger and it's a much larger opportunity for us to cross-sell and up-sell to those customers.

Moderator: The next question is from the line of Ashish Chopra from GSAM.

Ashish Chopra: Firstly, Bhanu, could you just for the benefit of our explanation of understanding this detail in terms of business model, how is Adara's DaaS different from our DaaS? And how is Adara’s Martech different from our Martech?

Bhanu Chopra: Sure. So, our DaaS is basically competitive rate information. So, you are a hotel, you want to know what other hotels are doing in the neighborhood, you want to keep a track on your competition. So, we provide competitive intelligence. It does not include any consumer data. What Adara does is, it basically, their DaaS is around new measurement and insights.

So it basically leverages the data consortium, which is Adara's impact solution, and it helps marketers understand, especially in the case of one of the things that we didn't stress upon is that they have a lot of these destination marketers companies that are Adara’s customers because it helps them understand how to optimize their marketing strategy against real visitor revenue and improve economic impact in the market.

So, DMOs can also comprehensively quantify the value and economic impact of marketing efforts by directly connecting media campaigns and website activity to revenue spend in their markets. Examples of these are the Abu Dhabi tourism, visit Florida, visit California, Wisconsin Department of Tourism. The other thing that they do on the DaaS segment is around analytics and insights. So, it helps marketers, executives, analysts keep pace with the change in travel bookings spending in search behavior with real-time insights and forecast products that we can offer.

So, combining expertise and analytics with a deep understanding of the Adara consortium data, Adara provides material and actionable insights for clients to improve understanding of customer behavior and boost performance with the marketing investment. So that's more around the DaaS offering. It's around measurement and insights around your digital marketing campaign. But if you wanted to go a step further, what we could also do is and which is what RateGain does, we basically go and help a hotelier today, go advertise on social channels, digital channels like Google or Facebook and bring customers to them.

So, this adds a layer of intelligence because now instead of trying to advertise to anyone and everyone, we can now focus as per my previous example, to people who have that travel intent to establish. So, we can use the data from the data consortium to make specific campaigns to people who have that travel intent, which makes that campaign extremely powerful and compelling and should deliver a higher return on ad spend.

Ashish Chopra: And my second question was with respect to the struggle that Adara had in terms of recovering the revenues lost due to COVID, would something like Apple's IDFA changes also have had a role to play in that with respect to direct customer data and hence, the difficulty in justifying the ROI, the kind of impact that we've seen with some of the larger companies like Facebook and Snapchat as well?

Bhanu Chopra: Yes. So let me first address the question about the impact of, basically, this is the point around third-party cookies that you mentioned, that did not impact the revenue. So, the impact on revenue, as I stated earlier was largely around first COVID happened, and then there were significant cash flow issues. And because the funding was difficult to come by, it became extremely difficult for them to really recover. And they also pivoted the business model. So, they wanted to move from the Martech solution just to DaaS solution. And again, you have to pick your battles when business is stressed.

So, I wouldn't attribute this to the potential cookie deprecation point that you brought up. And as I mentioned to you, Adara's basically collecting this data through these data partnerships that they have established. And quite frankly, that's a huge moat, so somewhere around 2018, Adara began to move into their own ID graph framework away from the cookie and towards more persistent identifiers.

So today, their identity framework is based on this Adara privacy token, and this privacy token is an interface between a data partner and the Adara platform, enabling the onboarding and the sharing of data in a privacy first method of tokenization. And tokenization is the process of anonymizing any personal information using the deterministic non-reversible algorithm to change it into a unique value.

Moderator: The next question is from the line of Jayesh Shah from OHM Portfolio Equity Research.

Jayesh Shah: I have too many questions, but I will just mention some of them to get the big picture right. First of all, fail to understand why the promoters sold, if it's very easy for RateGain to go back to 15% EBITDA out of this business because the promoters could have done the similar thing by working with RateGain on some kind of an understanding and achieving the EBITDA because then the business that you bought is at 4x EBITDA.

So, what is it? And why are promoters sold on their stake and now working with RateGain? And now if they are employed at RateGain, what if they shift to RateGain's EBITDA? Because I believe they will not be considered as part of Adara. So when you give you guidance on Adara's margins and RateGain margins, how does it pan out? Secondly, what is the debt at Adara to understand the extent of financial distress? And is that a liability on RateGain as well, this is just to understand the whole structure?

Bhanu Chopra: Let me address the two questions you asked, and then maybe you can go back in the queue. So, the first question you asked is, why did the promoters sell out. I think what I'm sensing is you were asking why did they sell out cheap and why don't they try to revive the company themselves. So the answer is actually quite simple. The promoters own very little. They own single digit. Most of the company was owned by VC and private equity guys. The company has been around since 2009.

And as you understand the dynamics of VC and PE world, these funds have a life horizon usually of 10 years. So most of these PEs and VCs that invested in to the company have been around for quite some time, and they basically needed to get out given the life of the fund was coming to an end and because they were not able to raise additional capital given the funding winter that we have heard about over the last sort of few months, they had to look for other options.

And as I mentioned, we've been engaging with the company for now over two years. And we felt that we finally arrived at a valuation that looked right to us, and that's when we move forward on it. The second question you asked was distress in the company. So they did have a debt of about 12 million, but I'll let our CFO confirm that. But as you might have noticed in the press release, the nature of the acquisition is an asset purchase. So we are only acquiring the assets of the company and we're leaving behind any liabilities.

So basically, the burden of any liabilities, current or future of Adara does not lie with us given the nature of the agreement that we have done. This is not a creative structure, this is very typical way of buying companies when you want to protect yourself from any current or future liabilities in a distressed situation.

Jayesh Shah: That's very helpful. I have several other questions, but just one line question on the combined entity. With Adara in the back, does it allow you to actually increase pricing with your customers or the contracts for the length of the contract?

Bhanu Chopra: So on the combined offering, there is an ability to charge more, but it's still early days for us to ask for higher pricing from our customers. I think our main goal, it's a question that somebody asked earlier and sort of the low-hanging fruit and which is what we want to focus on. They have a great product, great platform. And what we want to help them is go back and reactivate a lot of the lost business because a lot of these big chains are our customers also, big car rental company, big airlines.

So our clear focus right now is to reactivate and win back because as you can imagine, they've gone from 100 million to 27 million. So there is a huge opportunity for us to go back to that lost business before we think about increased pricing. But given the fact that there's a lot of synergistic value in the offering. Ultimately, there will be an opportunity for that as well. But quite frankly, we haven't done that homework yet.

Moderator: The next question is from the line of Rishi Jhunjhunwala from IIFL Institutional Equities.

Rishi Jhunjhunwala: What exactly are we buying here, right? I mean, so are we buying the product or the technology that they're offering? Are we buying the people who are basically driving the business or is it the customers? Just trying to understand what is it that we otherwise couldn't have developed in-house?

Bhanu Chopra: Yes. So Rishi, I can't stress this enough. And I just want everyone on the call to appreciate how valuable this asset is. The platform of collecting data on all kinds of search and booking behavior that travelers across the globe have, it's extremely valuable. And this was not done overnight. They built this data consortium platform of 275 partners over a decade. And so as a result of which they have 1.7 billion profile of they know what people are searching, what they're buying, when are they traveling.

So this platform, in my view, I think the use case that they're solving for around digital marketing and data. I think those are just two used cases, but there is so much potential around personalization, CRM kind of content that you can offer. So I think in my head, we've hit a jackpot which is the value of the IP here and what we can do with this. The second point you asked about, okay, so what are we buying? So we're buying the IP, we're buying the platform, we buy the product. We're also bringing on board the people that are involved in the company today. So, we're buying all of that.

But what we're leaving behind is all the bad stuff, which are any liabilities that the company has. And again, like I mentioned, asset purchase is a very, very typical form of doing. From a buyer's perspective, it's the more preferred route. Sellers obviously don't like that. But we, given the situation we were in, we were able to facilitate a favorable agreement.

Rishi Jhunjhunwala: Understood. And the second question is if you really look at revenue decline, right, so from 100 million to 20 million, 25, 27 million now. And even in first half of the year, it's flat year-on-year, as you mentioned initially. Maybe really look at the rebound in the travel sector and even you guys are back to above pre-COVID levels already. Given that the technology platform is so great and the fact that we already have the right people to sell it, is it only an issue of funding that led to this non-reversal or non-rebound in revenues. And I'm assuming that $90 million of revenue lost in the last two years is not lying somewhere probably other competitors would have already taken it up in the past two years. So how do we intend to take that share back away from others?

Bhanu Chopra: Yes. So, Rishi, yes, the first question you asked, do we attribute this largely to cash flow issues. Yes, because when COVID happened at the time of we sort of pre-COVID, there were almost 280 people. And then they had to let go most of those people. And because of cash flow issues, they were unable to hire back most of those people. So you are seeing some rebound, but you're not seeing the kind of rebound you would want to see, which is commensurate with, as you mentioned, how travel has bounced back.

So we do attribute this completely to more of a cash flow issue. And to your question about where has this business gone? So yes, some of the business has gone to competition. Some of it has actually also gone in-house. So given the fact that we have some very, very good relationships. And also we have a much larger reach. So they had a very, very large sales and marketing organization that was retrenched as a result of COVID and never recovered.

Our ability to sort of use our teams and some of our existing relationships because the customers are common while some of them may not be working with them and this is the point that I've been mentioning why RateGain is so great because we have these large relationships with all these large enterprise customers, we have their trust. So our ability to go back and reactivate a lot of these relationships. In fact, given the fact that we have this great relationship and also the power that we bring of a more realistic platform gives us the confidence that we will be able to recover in. If you also look at the guidance that we are giving on the revenue growth, I think it's fairly conservative.

Moderator: Thank you, ladies and gentlemen, due to time constraints, that was the last question for today. I would now like to hand the conference over to Mr. Bhanu Chopra for closing comments.

Bhanu Chopra: I wanted to again mention that we are very excited about this deal, about the moat, Adara has created and it strengthens the relationship that we have with some of the big brands. And I wanted to take this opportunity to thank the entire RateGain team and Adara team to bring this deal together because we've been working at it for several months. And I wanted to thank everyone to take out time from their precious schedules to be on the call today. We understand people are returning from holidays. Thank you very much.

Moderator: Thank you. On behalf of RateGain Travel Technologies Limited, that concludes this conference. Thank you for joining us, and you may now disconnect your lines.