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Kambi Group

Q2 2021



Prepared Remarks

- Good morning, and welcome to Cambysis Q2 Quarter Report Presentation. I am Christian Ireland, and with me is our CFO, David Kenyon. Let me go through the agenda for today. I will start talking a little bit about the highlights. David, can you turn the picture?
- And then I will hand over to David to go through the financial highlights and then I will come back and talk a little bit about strategy update, the euro Canadian opportunity and then we'll have Q and A. So let's go to financial highlights, please. This was a real, really strong quarter again. We had revenues of SEK 42,800,000 with an operating margin of 39%. We have net cash rising to SEK 84,500,000.
- So very, very pleased with the numbers. The one number we probably would have been hoping for is slightly better and we'll come back to it when we talk about the euro is the turnover. But in general, very, very strong quarter, which we are very, very pleased with. We increased our U. S.
- Reach with online launches across 4 different states, of which we did 3 launches in 5 days with Churchill Downs. In South America, we expanded with NJ Gaming or their brand Olympus Sport in Peru. And that's the brand we hope will take us through to our state in South America eventually. In Europe, we launched our 3rd State Lottery, going live with Belgium Natural Lottery just before euros. And we will go live also with retail in a few weeks.
- And finally, of course, The highlight of the quarter is the Euro 2020, which is was long awaited 1 year delayed due to the COVID, delivering a very, very strong operator trading margin. And in general, it was a great success for us. I will come back to that a little bit more later. Now I hand over to David to talk about the financial highlights and then I will come back later again.
- Thank you, Christian. My name is David Kenyon, Canby's CFO. Good morning, everyone. So the financial highlights. We had revenue in Q2, euros 42,800,000 Our costs were €26,200,000 in line with the previous guidance.
- This gave an operating profit for the quarter €16,600,000 at a margin of 39%. For the first half year, we had revenue of €86,000,000 and EBIT €35,300,000 Of course, when we look at comparisons to last year, Q2 last year was heavily disrupted in terms of the sporting calendar. So the operating loss for last year And all the other comparatives we look at today should be viewed in that context. So it's very strong numbers here, Q2 2021. This is the Canby Turnover Index.
- It's where we aggregate the results of all our operators. So the blue columns represent the aggregated turnover on an index basis on a quarterly basis and the orange line represents the aggregated trading margin made by the operators each quarter. Football and basketball are the main two turnover drivers for us this quarter, and both of them showed really strong margins, particularly the football, where virtually all the major European soccer leagues have very high margins this quarter. In terms of the turnover number being down at 911 from last quarter, there's a few reasons for this. I think principally the seasonality effect.
- So in the U. S, there was no American football. And we just saw the last few matches of March Madness in here in Q2 in terms of college basketball, which has been a major turnover driver in Q1. Also, this 9.3% margin, which is above typically where we expect to land, does have a dampening effect on the turnover. And we saw the initial transition of states by drafting of some of their markets across away from Canby, which probably impacted the turnover index by approximately 30% to 35%.
- I wanted to mention this because this one will have a significantly larger impact in Q3 when most states will already be transitioned by DraftKings. This will impact the turnover significantly in Q3. We will still earn revenues on those on that business for Q3 up to the end of September. But it should be noted, yes, this incentive index will reflect that come Q3. Scott, having said that, there was a really strong sporting calendar starting to pick up again during Q3.
- So we have the Olympics starting this week. We got the return of the major European Soccer Leagues in August. We have the NFL starting in September. And we hope for new regulations in certain in quite a few states in the U. S, in particular, such as Arizona.



So yes, look forward to in Q3. Here on this graph, we show the what we call the waterfall, so the conversion of operator turnover growth through to Canby revenue growth. At constant FX rates, turnover grew by 270%. That was then added to by the increase in margin where we had a margin of 9.3% this quarter versus 8.2% Q2 last year. So that led overall after the taxes and marketing to a 294% increase in net gaming revenue for the operators.



65% of this growth was then converted to our revenue growth. The other column does look large there. That's really because last year, we were Operator, typically, on the with the low activity due to COVID, they were on the lower end of their tiers in terms of Slightly higher commission rates. As the business has significantly grown this quarter, obviously, they're on slightly higher tiers, which mean lower commission rates. So that's Reflected there in the other column, but the 65% conversion is really where we expect to land anyway in a normal period.



So no real surprises there. Again, I just want to mention how Q3 might look for this waterfall. It's going to be a slightly strange quarter. We're going to have The turnover from these transition drafting states coming out of the column on the left, so the turnover growth, but we will be earning revenue on those on that business. So we Expect to see a slightly depressed turnover column, but a much smaller negative impact in the other, which is where we'll see the revenues coming in but without the turnover.



And I'll explain that again in Q3 when we see the actual numbers, but I just wanted to flag it will look slightly unusual just for 1 quarter. Turning to our balance sheet, which is looking particularly strong now. We had €92,000,000 of cash at the end of the quarter. We had €14,000,000 cash inflow in Q2, and we had a very healthy equity to assets ratio of 10% to 2% at the end of the quarter. I think this does leave us in a really strong position to look at M and A going forward, which can either fast forward our growth or widen the moat for the competition.



The type of areas we might look at for M and A could be complementary products to our existing sports book. It could be sports specific product enhancements. It could be artificial intelligence, which will help make our operations more efficient. Or it could be in the area of player account management systems, which will increase the scope of our service. These were areas we did discuss on our Capital Markets Day in June.



I just wanted to pick up on some of the things we talked about. It's still available to watch on canby.com. So please, you can see the full thing there. And really some of the things we talked about were the strategic pillars, which Christian will touch on now, but we set out how we saw the strategic pillars for our future growth and success. Our COO, he talks about the next generation Cambly sportsbook, which will work with and how it will work with new technology and how it will adapt to fit the market's need for differentiation.



And I talked a lot about the potential addressable market where we built it up region by region and we made an estimate of in terms of operator GGR, €44,000,000,000 to €63,000,000,000 by 2026. Just going back to that theme, this is really how we built that. We split it into the main areas. So it was the U. S, which we thought could reach €15,000,000,000 to €20,000,000,000 in terms of operator GGR by 2026 the rest of the Americas, €47,000,000,000 Europe, euros 18,000,000,000 to €26,000,000,000 and Asia, euros 7,000,000,000 to €10,000,000,000 And look, this is obviously a long term 2026 view, but we'll keep you posted with progress as we go in some of these different areas.



And I don't think in Q2, we do already saw steps since our Capital Markets Day. So in terms of regulation, we've seen progress in New York with the regulations being announced and Arizona where regulations were announced and they're looking for a pre NFL go live. And there are various other states actually in the U. S. Which are also in the process of regulation right now.



Then we have Canada, Major opportunity, which we flagged at Capital Markets Day, and it's actually been progressed on that front since then. Christian will talk about more about that shortly. We've had signings. So in South America, we signed with ENGIE Gaming for their Alimbo Bet brand, as Christian mentioned. That's a note that we really got the opportunity to expand our footprint in the South American market as they launch in Peru but also potentially other South American countries.



And we've had launches. So the one I wanted to flag in particular was the Belgian National Lottery, where we launched online with them during Q2, our first national lottery launch and very exciting prospect. So I think some good steps in all these areas towards the longer term view on the addressable market. With that, I'm going to hand you back to Christian.



Thank you, David. Yes. So on the Capital Markets Day, we talked about 4 strategic key pillars for us. The first of those is, of course, our core platform, but it's driving everything we're doing when it comes to a product, but also the importance of having a regulatory compliance platform in various jurisdictions and the importance of that. We talked about the differentiation and empowerment.



We talked about the power of a network, us being able to provide Our service to over 30 operators in all continents across the globe gives us a very strong advantage when it comes to understand player behavior and risks across the globe and of course, our highly scalable business model. The 2 ones in the eyebrow end, I will go through a little bit more in detail, Stu. But we have done progress in all four areas. So on the differentiation empowerment, We have, during this quarter, automated our price differentiation, which gives our operators more control to schedule their pricing to get their promotions more efficient. When it comes to power of a network, we have been working quite a lot with development of models with machine learning to detect price inefficiencies.



Take next slide and I will talk a little bit more what we have done when it comes to the platform and the product. So the American football, which is a massively important sport for us nowadays, of course, We have developed same game parlays, which is something we have had for a few years, especially on the sock. It has been very, very important for us. And I will talk a little bit more about that when we come to euro slide a little bit later on. I think this will be a product that who will really stand out in the market, and I think it will give our operators a great chance of really gain more market share.



When it comes to yes, the trend in the industry for a few years now has been, but the players want more control over the betting and are more keen on combining different things within a certain game. What we also allow which is quite unique is that you can also combine not only within games, but you can do it in multiple games as well. So, yeah, this I believe will be a very, very strong key feature, which We'll be hopefully launched a slight ahead of our first game early September on the American Football. Let's take the next slide. When we're talking about the highly scalable business model, Of course, it's very much about the possibility for us to launch our service to new regulations with existing operators, but also launch with new operators all the time and do that with a technology that is very, very scalable.



So we don't have to do very much extra work to launch new operator. This quarter, we signed and launched the Olimpo Best brand with NJ Gaming in Peru. And from signing to launch, We did it in a very, very short time to get them ready for the Copa America. As I talked about earlier, We have also launched with 3 operators in 4 different states in the U. S.



During this time. And as I also mentioned on my highlight slide, we launched Belgian Natural Lottery ahead of the Euro 2020. So it has been a lot going on during this quarter and this is something that will be quite prevalent during the rest of the year as well. We expect a lot of new launches, especially with new regulations in the U. S, but also launching new signing we did in Australia and a few more in Europe.



Next slide, please. Talking a little bit more about the euro, it was a record Summer tournament, it beat the 2018 World Cup, even if it's, yes, less games than it is in World Cup. I would say though, since we changed the tournament format in 2016. The interest for the group stage is lower. I think it's mainly because When more teams makes less of interesting games in the group stage and in Most groups, 4 out of 3 out of 4 teams are qualifying to knockout stage.



Having said that, I think The heat really picked up when the knockout stage started and then we really saw the turnover picking up quite big for last game. One feature what we have been working quite hard on is to have a really, really good experience when matches Gu beyond the regular time, which happened in 8 out of 15 knockout stage matches. And on average, on those matches, we saw a quarter percent of our live betting being placed on the extra time and the penalty kicks. So I think, again, something our operators really could gain from our really, really strong technology and offering during the extra time. We talked about the same game parlors or bet builder as it has also been called and how much that is driving in soccer already.



20% of all Euro 2020 gross gaming revenues came from the bat filter for the in game parlays. Next slide, please. I also want to talk a little bit about the Canada. Canada is a market that has been a monopolist market for many years, We're also it has been only allowed with parlay betting, so at least the 3 combinations, the 3 matches in every combination. This is something that has been talked about for roughly a decade to change.



And now it has happened. So Canada will become a regulated and we have removed the poly requirement. So we estimate the Canadian market to be up to worth €2,100,000,000 in GGR by 2026. We've had Canada will become quite a large market, actually one of the largest in North America, especially the State of Ontario is very, very exciting to us. And I also just briefly touch on with our Swedish heritage and the interest we have in our current market in Aisokie.



I would say, the Kambi is the perfect fit for the Canadian market. Next slide, please. During the quarter, we have also been very successful when it comes to awards. It has been 2 larger industry awards ceremonies during the last couple of weeks. And On EGR, we took 3 awards we could win.



We got in place software, the sports betting supplier and the most prestigious probably is the sports book Platform Supplier of the Year. On Global Gaming Awards, we won both the online sports betting supplier and retail supplier. Obviously, I'm very, very pleased with that, especially for all our staff to feel the recognition of doing a great job. So for us, it means a lot and we're very, very happy to win these awards. So to summarize the quarter, Again, a very strong financial performance, very pleased with the numbers.



As we saw, we are doing progress across all our key strategic pillars. And We see more and more markets regulating, presenting more opportunities for us. And at the moment, especially we're looking forward to more states in the U. S, Canada moving opening up and, of course, also more opportunities in Latin America. So thank you for that.



And with that, we open up for Q and A.

Q&A



Thank CFO. CFO. We have a question from the line of Erik Montal from ABG. Please go ahead.



Hi, gents, and thanks for taking my questions. To start off, I think the main concern at the moment for the market is Development Q3, Q4 when you will lose contribution from DK. Just when I'm looking at the second half and when I model out U. S. By state by state.



In Q3, you only have 1 large month. In Q4, you have 3 large months. And I'm just thinking about the sequential please for the underlying market plus the fact that Penn will expand into more states. To me, it still seems like U. S.



Revenue still will remain flattish to slightly declining from Q3 to Q4, while the market currently is pricing in quite a steep decline. If you perhaps could elaborate a bit on your own thoughts regarding this and the dynamics that would be really helpful.



David?



Yes. Thanks, Eric. I mean, firstly, let's take DraftKings. I mean, if you work back from the public numbers, you get to in the range of 20% to 30% of our revenue. So that will go at the end of September.



But then you have the unknown, which is how will the others develop, how will the new rollouts develop and how will the new states come on board and the seasonality effects with, of course, the NFL and College Football during Q4. So we know what's going out. We're pretty sure that there's More coming in. The question is how much it makes up for it. We're not going to put a forecast out there, but we've got lots of reasons to be hopeful that there's a lot of tailwinds behind us.



So I guess that's as far as we can say at this stage.



Got it. But I mean just thinking about just pure seasonality effect, I mean with 3 large month based upon your current customer base and We've also assumed PEN expanding. I mean, that will obviously give an up quite an uplift for your underlying business Q on Q, correct?



Absolutely. I mean, there's an undeniable tailwind, so that's for sure good. That's definitely enough over here.



Got it. Got it. And then just on the European side of the business, listening to your sector peers and even some of your Trent Clients. It appears that everyone seems to count on an acceleration in mid August as we think about activity wise. What is your own expectations regarding this?



And do you see any sort of risk for negative reopening effects here?



No, I guess, I mean, obviously, July is worst month of year, both in U. S. And Europe nowadays. August should really pick up in Europe because of the soccer season starts. I wouldn't put too much Ginta to do Olympics, but it helps a little bit of course.



And then I think September, that's the month when everything really are starting to take off again. You have more or less full season of the European Soccer and then you get the American football on top of that. So it is slower now and definitely we take off coming September.



Got it. You also mentioned in the report that Euro gold medal game. It was the highest turnover soccer game you've seen. If you perhaps could add some color on how much larger versus the prior record it was? And also to compare sort of activity level for the euros in July versus last year when you had some soccer leagues up and running, You could just perhaps give us some flavor on the year over year dynamics there.



I don't know if figures by heart unfortunately, Erik. But yeah, I mean, it's a massive difference on having a euro going on and having some of the leagues going on. But the difference is when you have a leagues going on that like you had last year, it's too many more matches spread out over a much longer time, of course, Sotho. I would say, looking at July year on year, You only had 5 less, yes, we have 7 matches of euros in July. So Yes.



July for sure is a weaker month on Stokke than it was last year.



David. And do



you have anything on the numbers?



No, I think you've got it spot on. Those 7 matches are great, but it's not the same as having regular league matches every week.



Fair enough. And then just on the on your current pipeline when it comes to customers. You compare the pipeline now versus a year ago, How does it stack up? And also whether or not you're facing more competition when it comes to contract negotiations, etcetera?



I would say the pipeline looks if anything better than a year ago. I think there is a lot of opportunities in more markets than we had opportunities in last year, so that's very positive. When it comes to competition, I think Obviously, the largest competitor we had before Espitec is not really in many discussions anymore. And I would also say that the rest of Cision has not really replaced them. So I think we have a better situation now than we had it a year ago when it comes to competition.



Understood. And then just one more question for me. Just on Ontario, I believe that's an option that's still not really priced into anyone's estimates at the moment. If you could just give Some more flavor there on the outlook and whether or not you think you will be up and running from day 1 there. Yeah.



I hope so.



Well, that's always our ambition to be up and running first in the States. I would say that we probably have a few customers already that We'll be very interested in the Canadian markets and I also think there is few very interesting opportunities for new customers in Ontario. So I'm looking very positive to that.



Got it. And just in regards of your position potential position within that market, do you expect a similar Market position as in U.S?



Possibly, as I said, even stronger. I think we are quite unique in having a customer base where Istock is so important already. So we are in a very, very strong position.



Understood. Thank you very much. That's all for me.



Thank you.



We have a question from the line of Victor Hirdre from Dalske Bank. Please go ahead.



Hi, good morning. So a follow-up on Q3. So the rest of the sports schedule now in August September, do you think it could mitigate the effect of DraftKings leaving on the turnover in Q3.



I think that's quite a tough challenge, to be honest. I mean, DraftKings has become a big Proportion, I talked about 20% to 30% of our revenue. So that's this thing at the end of Q3 is going to be It's a tough one to overcome, but I've talked about the tailwinds. Yes, it's really hard to say, but We're looking at slightly longer term as well than just Q3, Q4. I mean, if you look at all these new regulations coming in place, we're really looking at kind of where this takes the business 20 'twenty two, 'twenty three, and it's looking very



strong. I agree. But staying a bit Short term focused here, yes, for next question as well. But with just Virginia and New York left for DraftKings to leave then in Now in Q3, would it be reasonable to expect the Q4 turnover level to be higher than the Q3 level, because there won't be that much to drop off.



Yes. If you're looking at purely at the kind of the turnover index rather than Revenue side, yes, absolutely. I mean, then Christian, so it's about you get the 3 full months of the full fact sporting calendar through October through December. So yes, on that basis, yes, turnip should be higher.



Okay. And in terms of the high margin here in Q2, I assume it was seen mainly in the late parts of the quarter and Europe matches, which explained it. Do you think it had an effect on turnover? Or was it too late in the quarter to have a material effect on the turnover in Q2?



Yeah, I can answer first maybe. I think It was high margin all over the place really to when it comes to stock here. I think the Champions League was very, very high margin at the end of the Ceeson in most of the large leagues, it was very high margins. For the euros, actually, I would say that We probably didn't see that effect that much because it was quite poor margins for yes, up until the end of the group stage really. So for Europe, not too much that effect, but for The rest of the sports show or rest of the stock, I would definitely say, but the margin dampened the numbers a bit.



Okay. So sorry, I was muted. So it did have an effect then on the Q2 turnover, the high margin?



Yes, absolutely.



Okay. And last question. So the cost guidance, you raised it slightly now in Q3. What is the driver for that? And what would be the taking it to the high and the low level, respectively?



Yes. The biggest driver really has been a huge acceleration in licensing, which Trusini, even just during the last quarter, which is why we've raised the guidance since we did the Q1 report. So if you look now, there's kind of new regulation in Arizona, Maryland, Louisiana, all of which is for us driving application processes and kind of support regulatory support costs locally. Then you have the New York application and then that whole new regulation has come out. And then ongoing, which has been ongoing for a while, but has really sped up in the last quarter is the Nevada licensing application, which is a Quite longer process and also quite an expensive process.



And with that work on that has really accelerated recently. So I think all those combinations together have brought extra cost, but also, of course, much bigger revenue opportunity longer term. But yes, there is cost associated with that, probably more states regulating than we anticipated. So yes, kind of good news good reasons for spending hopefully.



What is the reason for the EUR 5,000,000 Between the top end and the low end, what will be more reasonable to expect at this point in time?



I would say, somewhere between the middle and the top.



Okay, perfect. And I was having a bit of problems with my connection, maybe you already talked about it, but could you talk us through a bit About the New York application now that you have a bit more details than the last time We spoke, if you could help us understand what is happening in York and how you sit?



I think it's still a little bit fluid. I think we received answers on the first round of questions We are in a good position to be a platform provider for our operators. I think the scoring system looks quite promising for us and our operators. But it is a bid, So nothing is given, of course, but I'm quite certain that we will have some operators who are going to bid together with us. So to can't give you very much more than that, but it looks yes, optimistic.



Okay. Thank you very much.



There are no further questions registered. So I hand back to the speakers for any closing remarks.



All right. Thank you very much for today. We will be back on the 27th October for our Q3 quarter presentation. Thank you very much.