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Kambi Group

Q3 2021



Prepared Remarks



Good morning, and welcome to the 3rd quarter presentation. I am Christian Ireland, and joining me is our CFO, David Kenyon. So I will first give you a brief overview of the Q3 and then Dave will come in and talk about the financial performance. And then I'll come back coming back and talk a little bit more in-depth about the Q3. So to the highlights.



I think we had a great Q3, very strong performance with 41,600,000 in revenue, which is a 48% uplift on last year. For the full 1st 9 months, we're up 80% from last year. Very pleased with all numbers and David will of course go through them more later on. During the quarter, we also acquired Abius, which helps us transforming our sports betting also into an e sports provider. With Eibios, I think we have a great addition to the team and I will talk more about it later.



During the quarter, we have also expanded with our partner network with 2 new signings in Bat City in Netherlands and Island Lach in Bahamas. And of course, I will talk more about that later. Finally, during the quarter, We launched in 2 new states, Arizona, which was our 15 states. And just after a quarter, we also launched in Connecticut, which I will talk more about later. But for now, I hand over to David and I'll come back later.



Thanks.



Thank you, Christian. Good morning, everyone. My name is David Kenyon, CFO of Cambly Group. I want to start with the financial highlights for the quarter. So revenue was €41,600,000 up From CHF 28,100,000 in Q3 last year, that's a 48% increase.



Operating profit was CHF 14,700,000, up from CHF 6,500,000. And operating margin was 35%, up from 23% last year, as our business model continued to demonstrate its scalability. I want to talk through a few other key events that are impacting the finances also This quarter, there's been quite a few. Firstly, the acquisition of Avios, which we completed in September. They're a data, content, Odds and visualization services provider to industry operators and technology companies and a leading B2B Esports supplier.



We paid approximately €15,000,000 upfront for the acquisition and there's around €12,000,000 as a potential earn out still to come in the coming years. And we used our strong balance sheet to finance a cash acquisition. Secondly, the Netherlands. New regulations started in the Netherlands at the start of October. Some of our main operators did temporarily exit the market, But those who pulled out are confident of gaining licenses in the first half of next year.



And we also have to mention JVH, who we did sign before regulation started who are also yet to acquire a license. BetCity did launch on the 1st day of regulation and we've been very encouraged by their start. The net effect of being in this newly regulated market with an incomplete suite of operators is approximately €400,000 to €500,000 per month on our EBIT. However, in the medium term, we do expect to be in a strong position in the Dutch market when all the operators to acquire their licenses. Thirdly, in August, Penn National Gaming announced it had agreed to acquire the Skor Media Group.



This doesn't impact our current contractual agreement, but I really want to just highlight that based on the official data in the U. S, PEN, National Gaming, they represent around 5% to 10% of our revenue this quarter. And lastly, I'm really pleased to Mentioned the share buyback program that we initiated today. It's a €12,000,000 buyback program. Over the Last year's strong performance has really contributed to strong cash generation and that's put us in a position to be able to start this buyback program.



So that will happen in the coming weeks. This is the Canby turnover index, which we always present. It's the aggregation of the results of all the operators. The blue columns are the aggregated turnover and the orange line is the Aggregated operator trading margin. The turnover is indexed.



It started at 100 when we first listed and it's indexed versus that. You can see it has fallen significantly to 575. It is severely impacted, of course, by the migration of DraftKings. So this number here in Q3 almost entirely excludes DraftKings. If we include an estimation of what the DraftKings turnover would have been, If going through our books, €875,000,000 to €900,000,000 is an approximate range that we think where it would have landed.



From a seasonality perspective, Q3 is typically a very quiet quarter in the sporting calendar. Really only in September do we see a return of NFL as well as the soccer season in full swing in the major European leagues, so that's worth highlighting this quarter. The margin was 9%, obviously relatively strong compared to where we've been in recent quarters. But we do note the comments of 1 of our operators, Kindred, this morning around the weak Sports betting margin at the start of Q4. And that is also true for us.



The results at the start of have indeed been have seen many favorites winning. But as we always stress, when we talk about operating margin, whether it's weak or whether it's strong, it's really only a short term impact. It's nothing that affects the long term of the business. And indeed, on the topic of margin, actually in our report today, we've raised our long term guidance on margin to 8% to 9%, and this is really driven by the increased popularity of high margin products, which we're seeing much more of now such as BetBuilder. This graph is the conversion of our operator turnover growth to our revenue growth. And I'd have to again flag that this quarter is heavily skewed by the migration of DraftKings, with very little coming through our books actually in Q3.



Without DraftKings, turnover is down 14% versus Q3 last year. However, then the 3rd column, you see the impact of the trading margin, which at 9% is significantly stronger than the 7.2% we saw last Q3. In the other column, pretty much a one off is the impact, the positive impact to the fees we charge to DraftKings in lieu of the service going through our books. So post migration, we still saw revenues from DraftKings in Q3 and that's significantly impacted our revenue here in the other column. And that took overall revenue up by 48%.



This is the last quarter where you'll see any impact from DraftKings. That service has now ceased. It's worth highlighting that DraftKings amounted to approximately 30% of our revenue for this quarter. If we exclude DraftKings from both this year and last year, underlying revenue growth was 22%. Here are the main features of our balance sheet, still very strong balance sheet. As we've said in recent quarters, but it's getting stronger all the time.



So even after the €15,000,000 acquisition of Abios, our cash balance was almost €85,000,000. Our cash inflow, excluding working capital movements and the acquisition, was almost €12,000,000 and we have a very healthy. Lastly, I just wanted to give some updates on the addressable market that we presented in June at the Capital Markets Day. There's been some updates in important markets which were the kind of pillars of those assumptions. On the left there, you can see in terms of addressable market. So the main changes this quarter have been in Arizona, where we launched on day 1 of the market regulation in September in time for the NFL season. And we're now live with 4 operators, Rush Street, Churchill Downs, Penn and Kindred.



Connecticut became the 16th state we launched in when we launched in October with Rush Street Interactive, who won a competitive tender to partner the Connecticut Lottery, both online and on property at 15 locations. In New York, with the lead platform bidder on 2 consortium bids, with the results of the RFP expected to be announced in December this year. In Canada, legalization of single sports event wagering came into force in August. And Ontario is in the process of opening its market to private operators. And the application process there began in September.



And as I mentioned earlier, in the Netherlands, regulation started in early October. BetCity has started very strongly in that market and we have high hopes for other operators to be licensed in due course. With that, I hand you back to Kristian.



Thank you, David. So, yeah, as we also mentioned during the Capital Markets Day, so we will update you around our 4 key pillars that we have mentioned in the Capital Markets Day. And I think we have some really nice updates on all four of them. Firstly, we delivered the Bet Builder for the NFL for American season. I will go through that more in detail.



But so far, it has been a great success. On the differentiation piece, we have built and launched the bar top terminals. I will go through that more in detail later on as well. But again, very pleased with the reception we got for that. On the power of a network, I think we have increased our AI capabilities significantly during the quarter and we launched successfully fully automated pricing on some of the lower tier soccer leagues with much more to come.



And finally, on our scalable business model, we kicked off a rollout of the retail launches in a Bellion National Lottery, and we can do this remotely. And during Q3, we launched 30 retail stores and today we stand at about 80 stores in total. So, BetBuilder for American Football. I think this has been one of the key projects for the year and it has been a fantastic success so far. We see when we look at the bettors on NFL, more than 40% of bettors have been engaging with Bet Builder.



And roughly 20% of all pregame bets is on the Bet Builder. And of course, it is much higher margin on this product. One thing we have that is unique in the market The ease that you can place this multi game. So you don't only have to bet within a game and the Correlated bets, but you can also combine it with our bets. So you can have, for instance, a baseball match combined with an American football match, which is a great advantage and something that we are quite alone on.



And roughly a third of all Bet Builders is combined with an other event. This is a big project. It started many years ago with soccer and now we have ruled it out to American football. And with that I think We are in a position where we can become much, much more fast with new sports. And I think I know that during this weekend, we will start with the college football, which is giving us yet an average.



And I think we are alone on delivering Bet Builders for college football. And later in the year, we will expand on Isoke as well to have a great BetBuilder product, Timely enough for the launch of Ontario market of course. And next year, I think more sports are to come. So we're very pleased with this product. I think that builder is one of the Key elements of any future sports book.



I think it's very, very hard to create a product that is competitive. Most operators are using 3rd party solutions, whereas ours is fully built in house. And now we have all the flexibility to keep on developing this. And I think in future years, you will see us Going into Bet Builders in play and creating cash outs on Bet Builders and so on and so on. So I think we are in a great position with what we have built so far.



Another thing that I talked about before is our Bartok Terminals. I think this has been a request from many of our casino operators especially. And now during G3, We exhibited this new bar top betting terminal, which I think got great traction and many Existing operators and prospects really liked it. This is very popular in the U. S.



Market, Traditionally used for casino games and especially card games such as poker. And as usual, I mean, We're taking our online product and adapt it to suit very, very well in the retail market. We have been innovative before, especially when it comes to bring your own device and so on. So Once again, very pleased about being able to deliver something new and great to our current customers and future prospects. Next thing I wanted to talk about is automation of our soccer artist compilation.



This is a product that we have been working on for a while. Of course there is probably many who We'll talk about being able to automate soccer pricing. What we are doing I would say is very, very different. We are not looking at the market. This automated Soccer compilation, we can actually open any market and that is what we're doing on more than 1,000 games across 20 leagues during Q3.



So we can be first on the market, Increasing slightly higher turnover on these leagues and maintaining a very, very strong sports betting margin on with Automated Leagues. This is obviously something that we will roll out in Much, much further scale, this is a first test. But I think it's a small step in a direction of A much, much higher grade of automation in sports betting. Now I would like to talk a little bit about our acquisition of Abios. I would say that the Esports is something we started many years ago with some pricing.



I wouldn't say we have had the strong focus to really become a leader in the field, But it's something we have been looking at and yeah, looking for right timing to really become stronger in this field. With Abios, I feel we have found a great partner and I think Abios is a fantastic company. I really like their leadership and their technology and I think it's a very, very good Fit of cultures, so really pleased with it. I think When we looked at the Esports, especially during COVID when most other things Disappeared overnight in April last year or even March last year. Esports was one of the things that was there and we saw that there is definitely a future for Esports.



I still think It's a few years away, but I really think this is a great timing to start getting a leadership role in the esports market. During Q3, we also One, a few new customer contracts. Island Luck, which is a clear market leader in Bahamas. Again, our focus in Americas is paying off and we're very pleased to add Islandlak and the Bahamian market to our offering. Islandlak is regulated in the Bahamian market and as I said, a clear market leader.



And then BetCity, which we launched on day 1 in Netherlands. And So far as David mentioned, have performed very strongly. Yeah, at the moment he's actually our only operator in the Dutch market. So very pleased we're getting Yet another strong brand in the Netherlands market. And I think for future, when we get all of our customers back, We will have a very, very good position in the Dutch market.



During Q3, we did a lot of launches with our existing partners. To start, we've been Arizona. On day 1, we launched with both Penn and Kindred. And Shortly after CDI was also following. And early in Q4, We also got Rush Pete joining in Arizona as David mentioned.



For other states, We launched the Penn in 5 new states during the quarter. And we also launched Kindred in Iowa and Parks in Michigan. On property, we did 2 launches in Pennsylvania and Arizona with 2 of our partners. And as I mentioned earlier, we did 33 retail locations in Belgium with Belgium Lottery. So we have been very, very busy and I think This is one really strong ability we have to be able to support our partners to launch in So many different markets at the same time.



And I think it's a very core strength for us as a company. After Q3, I think the highlight is us launching with Rush Street and Connecticut Lottery in Connecticut. Connecticut of course is not the largest state, But Rush Street is one of only 3 operators in the state. So it's a very important state Still for us to be in, Rush Street will also have a great advantage. The other 2 operators only have 1 retail spot each, whereas RSI will be located with 15 different retail locations in much, much more urban destinations as well.



So that is looking very good for us. We will Yeah, as I mentioned, we of course also launched RSI in Arizona. And earlier in the month, we went live. We were raising Western Australia also. We expect Louisiana to be state number 17 in a few weeks.



So it is another busy quarter. To summarize the quarter, yes, It's yet another very strong financial performance from us, revenue up 48%. And I think it's Worth pointing out again, this is not the greatest quarter when it comes to sporting events. As a comparable to last year, it's quite a tough comparable because last year the sporting calendar in Q3 looked Way better than it usually do in Q3 due to the COVID effects. So we're very, very pleased to see that the Performance is really holding up on a year to year comparable.



As I mentioned, we acquired Abios to become a leading player in the esports field. And other than that, I really think the future is looking bright. Our sales pipeline is very, very strong at the moment. And finally, we initiated a share buyback program today. Thank you very much.



And with that, we can take some questions.

Q&A



So thank you so much, David and Christian. And now we will have time for some questions. And we will yes, my name is Mia Nordlander, and I'm Senior Vice President, Investor Relations at Cambria Spa. So we start with the audio questions, I think. Thank



you.



Canyon. Our first question comes from the line of Erik Mo Boak from ABG Sundal Collier. Please go ahead. Your line is now open.



Hi, guys, and thanks for taking my question. You mentioned the sales Pipeline there. What type of potential client is it that you currently are in discussion with? Is it up and coming operators that is To launch an online brand or is it actors that turn to have a sports product that are evaluating new options?



Hi, Eric, and thanks for question. So maybe I should repeat the question again. What type of Customers do we have in our pipeline? I would say it's a wide variety of customers. I think in U.



S, it's Mainly operators who are looking to get into a market. So I wouldn't say We see a lot of operators at the moment that are currently doing business in sports betting. The same goes a little bit for what we see in Latin America. In Europe, however, I would say it's very different to what we're looking at the moment where We see a lot of operators having our solutions or in house solutions who are looking to change to Cambria at the moment.



It's quite interesting there. I'm going to Europe. So What type of actors? Is it more sort of do they actually look to source out a certain region? For the complete offerings or and also what type of actor is it?



Is it publicly traded companies or is it more private smaller private companies In Europe.



I don't want to get into more detail. But yes, as I said, they are Not insignificant and there are definitely companies that would Bring a lot to the table for Kambi.



Understood. And then just a follow-up on the current pipeline here. I mean, you signed with Fanatic Gaming, you have agreement for potentially for New York. What's the latest in terms of the application in New York? And also, do you expect Fanatics to expand into other states and become a national player?



Yes, the state of New York, I think we expect to get a final decision somewhere late November or early December. Regarding fanatics, obviously, we hope that It could extend to 2 more states, but it's nothing I can comment on at the moment.



Fair enough. And then if we just look at the European side of the business, obviously, Kindred now has ceased its Dutch operation. Well, my assessment is at least that Kindred's Dutch operation is a relatively small part of your revenue. But how should one think regarding Netherlands going forward? I mean, you have signed with 2 clients already, where one of them already have entered the market.



Do you expect the net effect from this dynamic to be neutral, negative or positive?



Yes. Thanks, Eric. So I mentioned in the presentation that at the moment, it's a negative. Whilst we haven't got a full suite of operators there, we're probably looking at €400,000 to €500,000 a month down. But if all those operators and the new operator JVH, they all get licensed, then we could be net positive position.



We have to see a bit close to the time with the timing of the licenses and how the market pans out.



All right, fair enough. So looking into So 2022 for full year, it could very well be a net positive, in other words?



It really depends on timings in 2022, I'd say, but yes, All



right, got it. And then just one last question here on the U. S. You mentioned there that turnover is flat year over year in the U. S.



Even when we exclude DraftKings within NFL. Do you think that this means that revenues could be up year over year given that you will have higher order rates And then also better mix impact through take rates.



So can you repeat? I didn't really catch the drift of the question.



Yes. So in U. S, You mentioned the turnover is flat year over year in NFL, even if we exclude DraftKings. But Just looking ahead here into Q4, obviously, you will have 3 large months versus 1 large month in Q3. And do you think that this means that revenues actually We are up year over year given that you will have a higher on rates, sports book margin driven and then also better mix impact Through takes rates.



I mean, I'd just caution slightly with 2 things I mentioned earlier. 1, of course, is the Netherlands, that impact And also then the margin, which it has been weak at the start of the quarter, which we'd expect to come back later in the quarter, but we've already had best part of the month with a low margin. So I don't want to get too much into speculation about how Q4 will pan out really.



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



Thank you.



Our next question comes from the line of Marlon Varnik from Pareto Securities. Please go ahead. Your line is now open.



Yeah. Hi, good morning, Liana, David and Christian. Just a question here, I mean, we saw Kindred getting up to it This morning for Q4, extraordinary low sports book margin up until 24th October. You said that you've seen similar effects, but what can you say about the development on the U. S.



Market as compared to the European market Can you start the Q4?



I think this has been quite an odd quarter so far in that perspective. But I mean, It's quite bad results or player friendly results maybe I should say both in The European Soccer and the American Football, so it's not great at the moment. But As we said before, and I think long term, we expect margins to on average become better. So I mean, It is a quarter. It is not very often nowadays where we have poor quarters.



But Yes, it can happen now and then. But long term, I'm pretty confident that our sports book margin is trending upwards rather than the other way around.



And are you still Comfortable that you will receive the trading margin guidance of 8% to 9% here in Q4 given the Q4 start?



I would say that our guidance is on future numbers. So I mean on Every quarter or every month we expect an average to be 8% to 9%. If you have a month in a quarter where it's significantly lower, of course, we would expect us to come in lower on the full quarter.



Perfect. Thank you. And you lift the operating margin guidance It's 8% to 9%. Historical average has been 8.5%. I understand that.



But looking forward, I mean, I understand that they play more money lines in the U. S, but they do also play more parlors and also the best builder products is boosting too. And so why don't you expect the sports book margin to continue its positive trend and increase from the historical average?



Maybe we are a little bit too careful, but I would say that I mean We feel that we have enjoyed a few years of great sports betting margins. We have Hardly have any months where we have seen really poor results. So maybe we are a little bit too cautious. As you see, if you look at the few look the last couple of years, we have averaged quite high numbers already. So It's not impossible that we would do a future adjustment even further.



But at the moment, I think this is where we believe We should be.



And also, I mean, what's your Expectations on the playing patterns in markets such as Latin America and Canada, if you compare it to, for example, Europe?



So Latin America, I think we have quite good evidence of Colombia so far and I think they are very happy to play quite large parlays. So I would expect us to have Quite good theoretical margins in Latin America as a whole. Canada I think is a little bit trickier to evaluate at this point. I mean, single wagers has been not legal for a lotteries to offer for yeah, since we started in Canada at the lottery. So I think Most of the players they are very used to use parlays.



So I think it will be higher Theoretical payback in the Canadian market than the U. S. Market, but it's speculation at this point, I would say.



Perfect. And just a last question here. I mean, if you can give us an update on the Churchill Downs rollout in United States.



I think we're now live in 7 States, I think. Yes.



I think it's accelerating. I mean, they've rebranded to their TwinSpires brand. So and I think that's been the cause of an acceleration in the rollout of States. So it's one we've definitely got high hopes for looking forward at least.



All right, Praveen. Okay. Thank you, all.



Our next question comes from the line of Victor Kordberg from Danske Bank. Please go ahead. Your line is now open.



Yes. Hi. Sorry, I was a couple of minutes late, so maybe you covered it. Let me know if so. In the report, you state the pen is 5% to 10% Out of Q3 revenues derived from Public Data.



Have you said or have you seen anything indicating the length of the contract? You signed them in the mid of 2019. My assumption is that 2023 could be covered. And you've only said that it's a long term contract. Could you help us So add some color on the length of it, if you haven't already.



So I mean, I don't want to comment on the relationship between us and Penn. But I can tell you this much, Pan themselves commented on what they expected to move Away from Kambi, earliest in yes, for a football season in 2023. So that's Yes, more than 1.5 year away. If that will hold up or not, I don't want to comment on, but yeah, I can't give you more light on the contract situation.



Okay. We might we'll see, but maybe it's a situation where with the drafting situation where you Compensated order revenues even if they move. Earlier, let's see. And on Netherlands, just checking the SEK 400,000,000 €500,000, was that on sales or EBIT? That's on EBIT.



Effect currently.



Yes, EBIT. Very similar, to be honest, but it's on EBIT.



Monthly or quarterly basis, yes.



That's on a monthly basis. Okay.



Thank you. And just the Latin American Junitie, that you talked a bit about on the CMB. Could you have help us update on what to expect there in terms of potential timing?



I think we see Argentina moving slowly towards more and more regulation. So I hope the timing there is in the coming months to be honest. Brazil, I don't really have any new update. We still hope that it will happen in 2022, but I don't really have any new updates since the Capital Markets Day.



Okay. Thank you very much.



Thank you. We currently have no further audio questions. I'll hand back to any other questions.



Okay, great. Then we have actually got So I'm on the web here. So I think I'm going to start with you, David. You presented strong financial performance even compared to tough comparables due to a busy sporting calendar last year, what were the key drivers behind this?



Yes, I'd say we've really seen the fruits of our regulatory and sales efforts over the last years. We've launched into new states in the U. S, so a whole number since Q3 last year. We've got Arkansas, Arizona, I mentioned that was in September, Michigan Online, Virginia, Tennessee, that's 5. We've also launched in Argentina.



Christian mentioned, so parts of Argentina have regulated since then. And we've launched new customers. So from the sales efforts, so Belgian National Lottery, Casino Magic, Bet Warrior and Nexus in Peru. And then we've seen growth from our existing operators. So I think across the board, it's regulatory, it's sales and it's performance that's driving growth of the operators.



Great. Thank you, David. One for you, Christian. Can you please comment on Kindred's poison pills ending 2023? Please elaborate on the long term strategy regarding this matter.



I can't really comment very much on it. I think the only thing we have stated, it is in the notes of Older EGMs and AGMs, so you have to look there. I can't really elaborate on the status more on that.



David, one for you here. Regarding Connecticut, How will you deal with Mohegan FanDuel work going forward? Can you give some flavor around that?



Yes, sure. We actually So we struck an amendment agreement with, Mohegan Sun to allow them to pursue their FanDuel opportunity. But what it meant for us was that we had actually recognized the revenues, anticipated revenues from the deal, so over the term of the contract, they'll pay us the revenues we would have earned anyway, But it frees them up to do their thing with Fanjul. I think it's definitely worth mentioning then that we also get working in Connecticut with Rush Street. So we almost have 2 revenue sources in that one state.



So yeah, we're very happy with the position with Rush Street and their work with the Connecticut Lottery going forward.



Thank you. And another one for you, Kristian. SB Tech built a product over 10 years and DraftKings then spent several 100,000,000 is improving it. And just for reason, SP a sports margin in the U. S, they are quickly losing market share after migrating away from Canby.



With that in mind, how can Penn be comfortable doing it?



I think that is clearly a Question for Pen rather than me. I can't really speculate, but I said it before, I think what we are doing is highly complex. It's not very easy to replicate. Many has tried in Europe and failed before. So Yes, starting from scratch and getting something up and running in a couple of years' time, I think, Yeah, it's a tough task.



We have time for a few more questions, I think. So Another one for you, Christian. Is there a reason GBH Gaming is not live in Netherlands? And when do you expect them get the license or do you expect them to get a license soon?



I would assume there is a reason. I don't know what. So I hope and expect them to get the license as soon as we give out more licenses and Hopefully, sooner rather than later.



Another one for you, Christian. Usually, a low hold rate happens in conjunction with higher turnover. Does that With higher turnover, does that relationship still holds in Q4? And any comment on what your thoughts are for quarter and quarter turnover growth?



Yes, so that always holds true I would say. It's quite simple. I mean, if players Winning, we tend to spend more of our winnings on betting. So that definitely holds true. It is a tricky comparable this year as well compared to last year.



But yes, taking out DraftKings because that obviously you have to do when you're looking at it. I'm quite confident we should beat the turnover compared to last year.



Okay. I think there was the question we had time for today. Thank you both David and Christian Thank you for presenting today and we look forward to be here back again for the Q4 results 11th February next year. So thank you very much