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Kambi Group

Q3 2020



Prepared Remarks

Good morning, and welcome to Canvys Third Quarter Results Presentation. I'm Christian Neiland, Chief Executive and joining me is our CFO, David Kanyan. Please turn to Slide 2. I will begin with a brief overview of what was a record Q3, after which David will take you through the financial performance. I will then speak about the quarter in a little bit more depth and also a few updates from Q4 so far.

But first on Slide 3, let me give you a brief introduction to Cambria. Kambi is the industry's trusted and independent watch pattern supplier. Our multichannel service is managed through an in house developed platform, which has been continuously developed over the last decade. The platform together with 8 60 highly skilled staff forms the foundation of our service. The Canby's sportsbook consists of multiple elements from front end user interface and open API through to audit compiling, customer intelligence and risk management, enabling our customers to offer their players a tailored and leading sportsbook experience from day 1.

On to Slide 4. Canvys' business is built up on a revenue share model with our growth linked to our partners' success. The foundation of our strategy is based on scalability. At no additional cost to our partners, can be continuously investing in products, people and technology to maintain market leadership. We operate an experienced in house trading and risk management team to optimize operator trading margin, And our business is underpinned by our corporate probability and integrity.

And we have successfully obtained all licenses we have applied for. All of this combined enable us to offer our partners the flexibility and scalability required to succeed in today's highly regulated and global market. Our technology has been structured in a way that enables Glanbia and its partners to quickly and efficiently comply with regulatory requirements, removing a major barrier to market and allowing them to enter new market as and when they require. Kambi is a trusted partner to more than 30 operators across 6 continents, including some of the most recognizable and successful brands in the industry. Together, they create a powerful network of operators, which combine to generate powerful data insights that we use to inform and continuously iterate our product and service.

Let's look at the highlights on Slide 5. Before looking at the highlights, let me reflect a bit on the pandemic and the impact on our business going forward. I'm proud of how well and prompt our staff have reacted to the changing circumstance, being ready to provide our operators with top quality service regardless of the circumstances. What we have seen from heightened restrictions across Europe in the last weeks, top tier sports seem to be shielded. I believe sports federations have shown they can run operations in a relatively safe manner, And it has been a very positive impact on people to be able to enjoy sports also in a lockdown.

We hope this can continue, of course, as it would significantly limit the earning impact on our business going forward. Q3 was a record quarter for Kandi, with revenue up 22 percent and operating turnover up 62% year on year. We also demonstrated the scalability within our business model, posting an operating margin of 23%. We signed a new partner in Churchill Downs, which operates a better Americas post book brand in the U. S.

This is a great partner win for us, and I will speak more about this later. We also extended our partnership with LEO vehicles. Not only does this extend the length of our agreement, but it also expands the partnership to cover additional brands. And as they become the norm, we have supported our partners with many launches, including the Barstool Sportsbook launch with Penn National Gaming. For now, I will hand over to David, who will talk you through the financial highlights.

Turning to Slide 6.

Thank you, Christian. Good morning, everyone. In Q3, we had revenue of €28,100,000 up 22% on last year. For the year to the end of September, revenue was €70,800,000 up 8% from last year. Operating costs for the quarter were 21,600,000 dollars giving an operating profit of \$6,500,000 at a margin of 23%.



Whilst for the 1st 9 months, we made an operating profit of £10,000,000 at 14%. Let's look at the income in more detail. Turning to Slide 7. This slide sets out the Canby turnover index with the graph showing the aggregated results of Canby's operators. The turnover is the total stakes placed with the operators by their end users.



In Q3, operator turnover was up by 62% on Q3 last year, reflecting the opening up and growth of the market in various U. S. States such as Pennsylvania, Indiana and Illinois, and the return of the sporting calendar after the heavy impact of the global pandemic in Q2. The 1st part of the quarter for the conclusion of the main European Soccer Leagues and the final stages of the Champions League. In September, we saw the start of the new seasons for the Soccer Leagues and the NFL.



It's extremely positive to note that operator turnover accelerated through the quarter, with 43% of the quarter's total being generated during the month of September. The margin represents the combined trading margin made by the operators. In Q3, this margin was 7.2%. We can see the split of operator GGR by region on Slide 8. With the growth of the total business, the European GGR was up 11% on the 10th quarter last year.



Q3 saw a resumption in the growth trend of the Americas GGR, driven by the return of the main U. S. Sport and the entry into new U. S. States, with this being the 1st full quarter of revenues in Illinois and Colorado, for example.



We can see the conversion from the movement in operator turnover to our revenue on Slide 9. Operator turnover post foreign exchange impact was up by 62% compared to Q3 2019. The comparative operator trading margin was very high in Q3 last year, so the increase in operator GGR was 38%. The effect of the significantly increased level of operator NGR was to decrease the effective commission rates charged to our operators due to the tiered structures in some contracts. The net effect of the revenue for Q3 2020 is up by 22% on Q3 last year to \$28,100,000 Let's turn to the full income statement on Slide 10.



Operating expenses for the Q3 were \$21,600,000 up from \$18,100,000 last quarter as our operations returned to pre COVID levels. Looking ahead to Q4, we anticipate costs will increase by 5% to 8% as we press ahead with our U. S. License application and data supply costs reflect the busy sporting calendar. The operating profit for Q3 was \$6,500,000 up from \$3,400,000 in Q3 last year and \$10,000,000 for the 1st 9 months, up from \$8,600,000 The cost after tax for Q3 was \$5,100,000 and 6,800,000 for the 1st 9 months.



Now let's look at the cash flow on Slide 11. Set out on this slide are the major components which impacted our cash position during the quarter. Our opening cash balance was €46,400,000 The cash inflow from the operating profit was temporarily offset by a negative cash movement in our working capital. Trade receivables increased in the quarter, predominantly due to a much higher level of invoiced amount in the months preceding the quarter end compared to in Q2. A large part of these amounts have been received after the end of the quarter.



Capitalized development costs in the quarter were 3,600,000 dollars whilst the amortization charge on previously capitalized costs was 3,200,000 euros The net cash outflow for the quarter was 500,000 and our closing cash balance 45,900,000 In summary, our financial performance, which showed a high level of resilience earlier in the year, This quarter reflected the business' ability to respond immediately to the resumption of sport and demonstrated the inherent scalability in the business model. So now let me pass you back to Christian. Turning to Slide 12.



Thanks, David. In August, we signed a new partner in Churchill Downs, which is a large multistate business in the U. S. With a fantastic heritage in sports and in particular racing, hosting one of our most prestigious events in the racing calendar with Kentucky Derby. Churchill Downs operates the BetAmerica sports betting band, which has been active in a few states for a couple of years.



They have yet to really invest in the marketing of the band, but plan to do so once they have transitioned to the Cambys sportsbook. They also operate a racing platform called TwinSpires, which has enjoyed great success in the U. S. Churchill Downs plans to align this closely with BetAmerica. And as we have seen, we have a success of ATG.



There is a good crossover between those that are racing and those that are out of sports. Dusshard Schildan is an exciting partner for us. We are already live on property in 2 states and we'll add more in the near future. The company also had great market access to BetAmerica has a great opportunity to become one of the leading sports book brands in the U. S.



For years to come. Turning to Slide 13. As I have said before, extending partnerships is yet as important as adding new partners. So I'm delighted I've signed a new agreement with Eureka. Not only it is an extended agreement, but it's also an expanded one with additional brands added to the contract, and we are already live with 2 of the both brands in the UK market.



Leovia Gas has been successful in using the Kambi technology to build a unique sportsbook experience, and we look forward to supporting their development through the Kambi area. Turning to Slide 14. Q3 also saw the much anticipated launch of PanNational's barstow sportsbook. The launch in Pennsylvania was a success and Penn themselves set out last week in their report. And we look forward to supporting the launch of the app in multiple states over the next 12 to 18 months.



The APE12 is a great demonstration of what's possible with Canby's technology. Canby acts as a blank canvas for operators that wish to develop something unique on our platform, which Penn has successfully done here, creating their own proprietary app and IP, built in house with them with no chemical. Furthermore, Penn has also been leveraging our price differentiator tool to differentiate themselves further in the market. While we have also had great success in using the BaaS tool personalities to create unique betting opportunities for the half. As you can see on this slide, for example, players can bet with or against David Portner, the master funder.



Overall, I'm confident about the next 12 months will bring as we support Permian creating a leading omnichannel experience with retail channel also a major focus for them. Moving to Slide 15. In total, Q3 saw 17 partner launches in the U. S, with 3 online and 14 on property. As you can see on the slide, these launches span 7 customers in 7 states.



Of the states we have launched Swartzbeck since the repeal of Hasbro, the Canvas sportsbook is live in more properties than any other B2B or B2C sportsbook. Turning to Slide 16. In the events of the Q3, we recently launched Infiniti, our 12th day, enabling drafting to be in the 1st tranche of operators to go live in the state. Tennessee is online only due to a fact that they have no land based casinos. It's worth noting that penetration has a border with 8 states, none of which currently offer online sports betting.



As we have seen elsewhere, investors are more than willing to trust the data in order to place bets on mobile. So we may see similar intensity, which will increase our potential market size. In events after Q3, we also signed with Bellion Natural Nordsville and we'll get into more depth on rapid tightening partnership in our Q4 report. Turning to Slide 17. On this slide, you can see the scale we have built in the U.



S. We are active in 12 states and operating sportsbook in 45 properties, which as I said earlier, it's more than any of our B2B or B2C sportsbook in the state launch post Aspen. With more states to come as well as expansion of our current partners, you can expect the number to grow substantially through the coming 12 months. And finally, on to Slide 18. So to summarize, it has been a return to form for Cambria following a difficult Q2.



In Q3, we delivered a record financial performance. As part of that, we have proven our scalable business model, delivering strong operating margin. And what has been pleasing of late is that we have carried this momentum into Q4. We were too by delivering a strong performance with growth accelerating, and we look forward to pushing on further over the final 2 months of the year. Now I will pass over to the operator for questions.

Q&A



Thank you. Our first question comes from the line of Erik Molberg from ABG. Please go ahead.



Hi, and thanks for taking my questions. So 43% of Q3 turnover was generated in September, which you then guided has accelerated into Q4. Aside from NBA, is there anything else that has a negative impact sequentially and on a year over year basis if we look at the full Q4?



Hi, Erik. Yes, I would say, the Aysok, you will have a little bit of a similar pattern since the NHL also had a very prolonged season into Q3. But other than that, nothing that I can see.



Got it. So all things equal then, given that you will also see the full effect for the Barstool brand and you will also have contribution from Tennessee, you should at minimum be able to have an average monthly turnover in line with September for the full Q4. Is that a fair assumption?



I would say that's a very fair assumption, yes.



Got it. Thanks. And then in terms of the new contract with the Belgian National Lottery, do you have any view on the type of market share sports betting brand processed in the past? And also, do you have any guidance in regards to what market share it targets going forward?



I can't really communicate anything on that at this point, Eric. But yes, I can say this they're coming from quite a low number. So they are certainly not a market leader in the Belgium market at the moment.



Fair enough. And in regards of Virginia sports betting, it is expected to launch in Q1 2021. Should we expect DraftKings to launch in Virginia with SP Tech or with you guys?



I don't want to comment on that at this point.



Got you. And just in general, obviously, you're experiencing rapid growth. But if you could give us some more flavor on the growth in receivables and how you work to improve working capital into Q4?



Hi, Eric. David It's yes, I mean, this movement in receivables is entirely linked to the growth in revenues. So at any period end, we have 2 months outstanding because it's the month before and then the invoice issued right at the end of the month at the end of the period. So versus Q2, of course, revenues are significantly higher. That directly translates into a higher debt balance at the end of Q3.



That balance, half of it has been recovered since the end of the quarter. So absolutely no concerns with the increase in debtors at the end of the quarter. And yes, if revenues are stable, then debtors are typically stable. And if they go up, revenues go



up, debtors go up.



So it's a very, very safe pattern and we're very happy with the position.



All right. Fair enough. Thank you very much. That's all for me.



And the next question comes from the line of Marlon Varnik from Pareto Securities. Please go ahead.



Hi, good morning, Christian and David. First, a follow-up question on the October here. You mentioned that the strong trend from September has continued into Q4. Have you seen this trend also as strong in the U. S.



Given that basically it's only NFL ongoing? Or have you seen it offset by new launches in the U. S?



I think the major sports still by quite some margin is American Football. So I would say that we see a very positive trend in the U. S. As well.



All right. Good. And second question, can you also comment a bit on the initial 3 bets and bonuses offered recently? How big of a short term impact, negative impact you've seen in the U. S.



Market? What can you say here?



Yes. I mean, I think the important thing from a Canvys perspective is we kept the amount that can be deducted. So in terms of our and what impacts our revenues, it's a known quantified amount kind of before we get into any contract. So yes, that's why you don't see a fairly stable reduction on the waterfall we show because we know exactly the caps amount that can



be deducted before we calculate commission. So yes. All right. And on Churchill Downs, how should we view the long term potential of Churchill Downs contract in relation to other U. S.



Partners, for example, RSI? And what can you tell about the rollout plans here?



So I mean, it's always hard to know the potential, but they have great market access. I mean, they are one of the largest when it comes to having already a network in different states. So from that perspective, it's very high potential. And as we talked about, I mean, customer base within the rating is quite fantastic. So if they can transform that into sports betting as the ATG was successful doing it in Sweden, for instance, where they have a very, very good chance of being one of the leading brands in the U.



S. Going forward.



Interesting. And can you say anything about the rollout and sales upside down in the next couple of quarters?





Not anything specific, but they have a quite aggressive plan to roll out into more states. So I hope they will be very present in the next 12 months, both online and retail in several more states at the moment.



Great. Also can you also give a comment of the outcome and your exposure on the U. S. Election? And if you can give some color of the turnover in the event in compared to other events?



Yes. So first of all, I mean, the U. S. Election actually is one of it is quite high turnover. But you have to remember that you can't bet on political events in the U.



S. At the moment. It's just on the European turnover actually. I don't think I mean, it will not be a significant for us higher outcome of the election in the end. I mean, it's less than a regular Champions League game, I would say.



So yes, it's a big event could be in politics, but compared to a large Champions League match, it's not likely.



All right. That's all from me now. Thanks.



Thank you.



And the next question comes from the line of Victor Horakay from Danske Bank. Please go ahead.



Yes, good morning. So I have a couple of questions. The first one is on the waterfall and the FX effect. I think this is the first time you've put forth the number or the figure of a turnover growth in local currencies as well. Is that correct?



And is that why the FX effect in the waterfall is so large, the net effect is not as much?



No, we have disclosed it before, but it's probably more noticeable this time. I think we've seen movements both on the Colombian peso against euro and the U. S. Dollar against euro. So it's actually normally it's there, but a very small amount.



It has been a bit bigger this quarter. Yes, it's around €1,000,000 I think if you translate from the waterfall into real money. So that's versus using Q3 2019 FX rates, it would have been €1,000,000 higher. Yes, it's fairly material.



Okay. And also, I just want to double check on Erik's question earlier on the implied turnover comment on the start to the Q4 with the average monthly turnover in line with September being a fair assumption, so 288x3, would that be a fair assumption as a baseline for Q3? Is that how we should read that comment?



Yes, I would say that's a fair assumption. Okay.



So seems like a strong start then. So last question. U. S. Out of the Americas, how much is that?



Did you quantify it or identified it in the report?



We didn't quantify it in the report, but it's in the range of 30% to 40% of the total. So 3%, 30% to 40% is in the U. S. And the rest is kind of Central and South America.



Okay. Thank you very much.



And we have one more question from the line of Jan Mar Elberg from Kepler Cheuvreux. Please go ahead.



Thank you. And just wanted to have a question around potential for a new contract in Europe. I mean, you saw the Belgian National Lottery win here. And we are seeing now Germany regulating and Netherlands regulating hard these countries. Do they have potential to add new clients of this type?



We always hope to win new clients, of course. And yes, of course, regulations has always been a good catalyst for new business. So obviously, we hope for some new opportunities in both Netherlands and Germany.



Thanks. And we have a question on revenue mix. I mean, you've added a lot of new clients. I don't know if you can comment, but I think in 2019, you said that 2 largest clients were 58% of revenue. Can you say if this has changed the thing in terms of dependence on large clients?



We'll kind of give the full year numbers in the annual report, but I don't think when you see that 30% to 40% from the U. S, you can see that probably that shift there is probably a shift in the numbers in those kind of reliance on specific customers. So yes, we'll give you the full numbers in the next annual report, but it probably will be



a little bit different to last year. Okay.



Those are the questions. Thank you.



And we have just one follow-up question from the line of Malen Varnik from Pareto Securities. Please go ahead.



Yes. Hi, it's Malen again. What can you tell us regarding the potential partner expansion plans in Maryland, Louisiana, South Dakota who voted for sports betting in the U. S. Election?



I think some of our partners already have market access into both Maryland and Louisiana. South Dakota is a very small state, so not sure if anything yes, that will not be very important, but I'm sure we will see some of our customers probably go in there as well. But both in Maryland and Louisiana, our existing customer base already have some market access, and I would expect more to find ways to get market access.





And given that the U. S. Market is legalizing now at a rapid pace, how should we now think about OpEx in the long term?



I mean, I think Rick and certainly our plans are to keep growing costs in the controlled way we've seen before. I mean, the growth of the U. S, it does bring some additional licensing costs, but it's nothing that materially changes our the path of our cost growth. So where we are growing costs is because we're doing it to really improve our service, recruitment and product improvement. So yes, I don't see the U.



S. Kind of continued growth of the U. S. Market necessarily shifting our cost base to what it has been in the past.



All right. Cool. And final question, a more nitty gritty question. Have you seen recently, do you find it more difficult to price markets are more obscure given that some of the professional sports book brokers have recently suspended its offering on those kind of markets?



Not sure I understood. We have a question. Can you expand?



So basically, some professional sports book brokers, they have taken away the more obscure market, at least lower the limits on those. Have you found it now recently, last month, more difficult to price those markets to your customers?



No. I guess the biggest issue here is, of course, having sufficient information to understand. If we can feel the team. And that becomes an even bigger issue in a market like Sweden, where you also have the regulations that controlling you're not having under 18 players. So I think that is probably a much bigger concern for us to be able to follow regulations when teams are depleting the best squads rather than the pricing of it.



But of course, I mean, if you don't have information about profit being out, it makes your pricing poor for a very short while. But that is not as a big issue, I would say. It's more of integrity concerns and regulatory concerns that we would not price something up rather than that we're uncertain about the pricing.



All right. Thank you, Christian, and thank you, David. Thank you very much.



And as there are no further questions, I'll hand it back to the speakers for closing remarks.



All right. Thank you all for your questions and for listening in. We look forward to updating you on the 10th February 2021 when we publish the Q4 report of 2020. Thank you.