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Kambi Group

Q1 2022



Prepared Remarks



Good morning, everyone. My name is Mia Nordlander. I am Senior Vice President, Investor Relations at Kami Group. Today, I have with me Christian Julian, our CEO and David Kenyon, our CFO, who will start today with presenting the quarter. Thereafter, we will have time for questions.



You could either call in through the telephone conference or send them directly to me through the web chat. So once again, very welcome and over to you, Christian.



Thank you, Jumia, and good morning. I will start with a brief overview of the Q1, after which David will take over and go through the financial performance. And then I will come back and speak more about the quarter in a little bit more depth. Oh, I forgot to show the agenda here. So the quarter, I would say that overall, we are very pleased with the quarter, and I think we have a very strong financial performance yet again.



We have a 25% operator turnover growth if you exclude the DraftKings numbers from last year. Most of this turnover growth is coming from existing operators growing in new markets, most notably maybe New York Online and Connecticut. And I think Dave will go through these numbers more later on. As we communicated already during the Q4 report, we have extended the Kindred partnership until the end of 2020 SIX. And that gives us financial security with the revenues from Kindred for yet another 5 years.



And at the same time, we announced the ability to repay the convertible bond, which means that we have much, a strengthened our position in North America with 2 new partnership signings. 1 is MaximBet and the other is Tor There was a few really big events in the Q1. Super Bowl, of course, the biggest event we have on a yearly basis, March Madness, the playoffs in the college basketball in the U. S. I will go through our product performance later on, but I'm very happy to see that we managed both these events without me.



With that, I hand over to David. I'll come back later. Thank you.



Thanks, Christian. So overall, I'd say we saw a very strong financial performance this quarter. We continue to be profitable. We continue to be strongly cash flow generative. And we have a powerful balance sheet, which positions us well for continued growth.



When you see the comparatives, of course, there will be some headwinds that we've mentioned previously. But just to reiterate, the DraftKings migration that took place in the second half of last year. That's obviously all shows in the numbers in Q1 last year. There's DraftKings numbers present. There's nothing in here in the Q1 2022 numbers and also in the Netherlands where some of our operators are still to obtain a license.



And of course, Q1 20 Costs of €29,500,000 were in line with our expectations. And this gave us overall an operating profit of €7,300,000 an operating margin of 19.9 percent. We also generated GBP 5,500,000 in terms of cash flow from operating and investing activities, excluding working capital movements. This gave us a net cash position at the end of the quarter of CHF72,400,000. And this gives us firepower me This is the Kami turnover index.



It's an aggregation of the results of all of our operators in the quarter over time as well. The blue bars is an aggregation of the turnover generated and that's on an index basis, which we set at 100 when The orange line is an aggregate of the trading margin made by the operators. That trading margin was 8.2% this quarter. More on the turnover then, 757 there, it's consistent with Q4. And I think this is largely driven the sporting calendar.



So there's some quite big factors here to explain. Firstly, American football. Q4 saw a full quarter of activity, whereas in Q1, we just saw the me, American Football Effect. We had a full quarter of college basketball, including the March Madness tournament. On the European football front, there were actually quite a lot fewer matches in Q1 Q4 within the Champions League as it moved from the group stages to the knockout stages.



So overall, 757, roughly in line with where we expected to come. Probably more explanation needed on the movement from last year on the 1056 down to 757, and I've set these out on this slide. Firstly, the headwinds I mentioned previously. So the DraftKings migration, which took place during the second half last That's actually contributed approximately 40% of last Q1's turnover. So a huge part that's come Versus this year.



And secondly, the Netherlands regulation, as mentioned, a few operators are yet to obtain a license, and we look forward to that happening, which will be a tailwind to our business But then on to all the factors which have actually boosted our turnover versus Q1 last year. Firstly, new operators. We've signed quite a number since this time last year, and some of those include BetCity and JVH in the Dutch market and the Belgian National Lottery. We're very pleased with the progress of these operators. We've also launched into various new states in the U.



S, including Arizona, Connecticut, Louisiana and most recently, New York Online, all contributing now to the Q1 'twenty two numbers. And we've seen our existing operators grow both organically and expanding their geographical footprint. So all in all, excluding that DraftKings number, 25% growth in operator turnover, a number we're very pleased with. Fine, I just want to talk you through the Canby revenue conversion. So how that 28% decrease in margin, the 8.2%, that's against 8.5% Q1 last year.



So a small negative for us on the margin front. But the biggest impact is in the other column Which pushes up the deficit from 30% to just the 15% overall. The biggest factor here is the way we structure our contracts. So we structure our contracts in many cases with tiers with significantly lower commission rates on the highest parts Effective revenue share across the network. Secondly, we have more live events here in Q122, which is not linked to the operator turnover but does drive revenue for us.



We also have other fixed revenues, which again are not linked to the level of operator turnover And I'm pushing that other bar up. And finally, we had a full quarter of Abios revenues, the acquisition we made in the end of last year, which again was is not showing in me a So yes, very strong financial quarter. And with that, I'm going to pass you back to Christian. Thank you, David.



So we have 4 key pillars that drives our strategy And we usually try to update you on some of the progress here. And this time, we have progress about our modernization strategy. As I have communicated before, this is firstly Manton. And by modernizing the service more and more, we get higher efficiency in our development. Secondly, we believe that with this modernization, we will be able to give our existing partners greater possibilities for differentiation.



And finally, and where we are hope to go by the beginning of next year is to start launching modules as



a stand alone service



and create new revenue streams. Within a few weeks, we'll be able to start launching our 1st internal pricing unit through this interface. And in the summer, we hope to be able to push all Abios new orders product through this interface. On the front end, we have also started with an implementation of what's called GraphQL that enables more flexibility for data queries from our customers in their endeavor to another thing we have been working on and launched this quarter is automated offering filtering. We have more and more complexity, we have more and more regulations across the world.



It becomes very important for us to be able to automate some of our filtering for what we can offer in different regulations. And I can take some examples. In Sweden, you're not allowed to offer events On Andre, 18 players. In New York, you're not allowed to offer the college teams in the state or matches played in the state and so on in many different regulations, many different rule sets. And You can solve this manually, but it opens up for a lot of mistakes.



So With this, I think we have tightened up the risk of making any mistakes, even though we have been very, very good at delivering a compliant product. It also makes it much, much more scalable and cost effective. And finally, it creates much wanted speed to market with a very, very high quality product from day 1. Bet Builder. During the quarter, we have launched both Aizaki and Baseball Bet Builders.



And as you can see, I showed this graph last time, so I won't go through it too much this But as you can see, we are comparing very, very well to the 2 market leaders when it comes to this product. During Super Bowl and March Madness, we did some internal product benchmarking against the top 3 operators in the U. S. And as you can see on this graph, In our perception at least, we hold up very, very well. And I would say, especially on the live betting, we are a stronger a supplier than any of existing market leaders at the moment can deliver when it comes to a product.



I think there is one big gap for us at the moment and that is a bet builder on basketball, Which takes down our grade internally on basketball. But this is intentional. We knew that we wouldn't be able to produce a bet builder to the start of this season, so we choose to do baseball first and During the quarter, we did 11 partner launches in various states. Of course, maybe the most important of these launches was to on day 1 Be a online on the market opening in New York State. We have 2 partner signings as well, Maxim Bet that we signed a multiyear sports group partnership with.



And we are very soon to be launching the 1st stage with Maximbet. And the North Star Gaming, which I hope we'll be a very strong local player in the Ontario market, and I think we are very close to be able to launch Talking about Canada, Kami is now live in Ontario with Kindred, Leo Villegas and Rush Street. We became one of the first sportsbook providers to obtain a regulatory approval to launch in Ontario. There are still some of the big ones who Haven't been able to launch Investate. As of now, since just I think it was the 3rd April, we are up and running with 3 partners, as I said.



And Ontario has every chance to become one of the largest sports betting markets in North America. And Kami has a a very, very strong product. With our Scandinavian heritage, we are great at ice hockey. And of course, that's also the most Bob Rasporti in Canada. I wanted to touch a little bit on the sales opportunity we see at the moment in the world actually.



So if I start in U. S, So I mean, obviously, there are still a few multi state operators that are very interesting to win. And I think we have some decent chances of doing that. But also, I think various many states that hasn't opened yet. And some of the largest states are still up for grabs.



Especially in California, we believe that it will be very much a state that is dominated by local players. And of course, I think California is almost a third of GDP in the U. S. Texas, the 2nd largest state in the U. S, also progressing well.



In Latin America, Brazil is nearing regulation. It's a massive country, and I believe we have some great opportunities there as well. And in Canada, there is still some big local brands yet to select the very sports book partner, and I hope we have a great opportunity there. In Europe, as I have communicated before, we definitely see that there are Tier 1s considering their study and may have been in house before and looking at an outsourcing study now, or in some other cases, changing from an existing third party supplier. And finally, Asia, it's more of a longer term But what we really are looking forward for is what we see tendencies of movements in both Japan and India.



A sports betting supplier. This is awards, of course, that is voted by peers in the industry. So we're very proud of winning these awards yet again. In addition, I also wanted to point out that Eilish and Krycek, who is doing a report on sports betting apps in the U. S.



Pointed out that their testing during the quarter indicate that Canby is definitely the 3rd party supplier of choice in the U. S. And we are powering 3 of the top 10 apps in the U. S. And last night actually we won Yet Another Award as the top sports betting supplier by EGR North America.



I just want to remind you that we are, just as last year, coming back to Kami's Festival of Sportsbook this year. On the what's the date?



23rd to 27th.



The 23rd to 27th May, and you can register on www.canby.com/festival. And to summarize the quarter, the financial performance remains very strong. We're very happy with numbers we can produce. Very much as I pointed out on the sales slide, momentum continues to build across Americas, and we hope to see a lot of more regulation going on. And the proven product excellence we can Shofor is really driving success going forward.



Thank you



very much.



Thank you, Christian and David. And now it's time for questions. So if you want to ask a question, you can either call in or send them through the web. But we will start with a telephone question. So over to you, operator.



Q&A



Thank you. Our first question comes from Oskar Rundqvist from ABG. Please go ahead. Your line is open.



Hi, guys, and thank you for taking my questions. A few ones from me. So first, I wonder if you had any comments on the convertible bond, if you could elaborate on the benefits that you see once you can repay it.



We don't really have more comments than last time. There are some benefits. I don't really want to elaborate very much about it. But obviously, we create more freedom for ourselves if and when we decide to repay the bond.



Okay. Got it. So is there any specific reason why you haven't repaid it yet?



There yes, again, I really don't want to comment on the specific reasons, but there are some benefits of not repaying it. And we can do it whenever we want to do it. And I think that is the most important thing to know.



Okay, got it. So next one, just roughly speaking, when do you expect it could be possible to see your first client signing for modular offering, i.e., not taking your turnkey solution? So just to clarify, I mean, the timing when you could potentially start to negotiate deals, if that will be distinguished from the development?



Yes. As I have mentioned, I think realistically, early next year is probably when you will see us starting taking deals on a modularized service.



Okay, understood. How do you see the competitive landscape developing? So for example, just I know that Pragmatic Play recently entered the sports betting market and signed what it seems to be quite an interesting client. So just do you have any comments on the competitive landscape.



I mean, in general, I would say the landscape is less competitive now than it was a few years ago. I think we've especially SP Tech disappearing from a market as a B2B supplier. I think we have seen less of competition the last year. There will obviously come in new entrants to the market, but I feel we have a very, very unique position as a top tier provider of sports betting services.



Okay, got it. Just a final one. Is it possible to get a comment on current trading for the start of Q2? So like anything on the sporting events, is it like punter friendly results. Anything on the start of Ontario?



Any comments would



be helpful.



Sorry, we have always refrained from comment on it since many of our operators are listed as well. And Willett Van comment on the start of the quarter.



All right, understood. That was all for me. Thank you very much.



Our next question comes from Victor Holberg from Danske Bank. Please go ahead. Your line is open.



Yes, good morning. So could you help us with ABOs, how much it contributed to revenues and results for OpEx in Q1?



Sure. Yes. It was approximately €500,000 on revenues and around €150,000 on an EBIT level from EBS.



I think you said in Q4 that EBS revenues were somewhere between €500,000 to €1,000,000 on a quarterly basis. Is that still true? What to expect going forward? And just the momentum in that business now that part of it and can start to cross sell.



Yes. I mean, typically, I mean, for this year, we're going to be seeing between €500,000,000 1,000,000 I'd say, Maybe towards the lower end of that range of it. But yes, that would typically be the quarterly revenue number and hopefully at a profitable a basis like we saw in Q1. Yes, and then in terms of the future, I think when they soon start selling their Odds products, I think that will be the real kind of boost to that business from those numbers, which are already profitable without it, but that could be the real boost.



And timing for that? Potential timing.



I think second half of this year is best estimate.



Okay. What are you hearing on Brazil? You didn't mention it in the Q1 report, the regulatory status there. So what's the latest? What are your thoughts on sports betting and potential timing for go live Once regulated?



Yes. I mean, it's impossible to speculate. I mean, we have seen it before. I mean, my favorite example is the Dutch market that took over a decade from when we started talking about it. So We still hope very much and it's good indication that it could happen this year, but it's impossible to speculate about it.



Okay. And on the Dutch licensing for your clients, you said that you're expecting the headwind to ease Sven, that's more than some operators have said on the situation. What's the latest in terms of potential licensing In the Dutch market.



Again, I mean, we are not the ones who have a direct contract a contact with regulators. So I think it's probably better for you to ask that question to the operators than us.



Since you said it, I think you have I assume that you have indications that it might be Zune. And would Zune be licensing during Q2, live in Q3?



We haven't got indications.



I'm sorry?



We have hope. We don't have indications.



Okay. But have you seen anything change, if I would put it like that, Change the outlook in either way in terms of timing.



As we said, I mean, we don't have a direct contact with the regulator. We can be up and running with a flick of a switch. So it's You have to ask that question to operators.



Okay. So one thing that you do control, the OpEx development and OpEx guidance. Given the Q1 level and also the guidance for Q2, it opens up for quite a wide range for the second half given that the range is €10,000,000 €125,000,000 €125,000,000 €125,000,000 in yearly OpEx this year. So could you help us with what's reasonable to expect? And why did you keep the range this big Given that you're guiding for half of the year.



Yes. I mean, there's obviously a lot of uncertainty at the moment in the world with a lot of inflation around, be it Through data costs or other parts of the business as well. So there are some uncertainties when we come to forecasting costs. I think we've always been quite accurate in the ranges we've given and the numbers we've hit. So I can't tell you right now where we'll be, but that's why we've given quite a big range.



It's really going to be driven by headcount, it will be driven by the number of new customers, by new regulations. There's still quite a few things that are out of our direct control. So Yes, hopefully, just trust in that range, and we're confident we'll hit it.



Okay. And speaking of inflation, can you do anything On pricing, is that a part of the discussion? It's not really applicable to your service? Maybe, but have there been any discussions on pricing given what everyone are seeing under input costs?



I think most of our pricing is based on revenue share and that would be quite odd if we change that due to inflation, I think. Of course, we have some fixed revenues that are just based on the data cost. And if the data cost goes up, we will, of course, be covered for VAT in higher fixed revenues as well.



Okay. And final one from me. On in the CEO letter in the Q1 report, you had something on the Manoeuvrability that the changed amendments or the amended terms with the Kindred and the convertible bond gives you that will enable You to add value for all stakeholders, and I think you would mean shareholders with that one. So I think It's quite clear that investors and the market have quite a hard time to understanding the bullish commentaries around the pipeline and this Kindred deal and also the buybacks last year. So maybe if you could help us a bit understanding on a previous question, you said you did want comment on the flexibility with the deal, but I think you might have to add some color to it for people to really understand because So there are a lot of question marks on the path going forward.



Whatever you could do to help with that Would be good.



Yes. I mean, what I can give is, I mean, I think and Hoop, but most of the listeners are quite aware of what kind of covenants you have around a bond. And I think that should give you quite a good indication of what kind of more flexibility we get by being able to repay the bond if we were to choose to do so. I can't really give you anything more on that at this point.



Okay. Thank you very much.



Thank you. The next question comes from Walter Lindhagen from Pareto Securities. Please go ahead. Your line is



Hi, and thanks for taking my questions. There was a question regarding the Q2 there and you didn't want to comment on the start of the quarter. But could you say anything about kind of what year on year impact you expect of not having the Euro Football Championship this year that you had last year, if you could give any flavor on that impact?



Yes. I think I mean, it is a World Cup year, but it's a very, very strange World Cup year. We have a World Cup not coming until November December. So the effect we normally see in a World Cup year will definitely not be here in Q2 and you should treat Q2 more as one of the years when we have no big tournament.



All right. Got it. And then a question regarding Kindred. I mean, there are a few it has passed a few months now since the news regarding the convertible bond. And I was wondering if you could share anything regarding reactions from your existing clients on your on the ability that you now have to repay this bond.



It has not been that much reactions At all, I would say. I think they are most other customers doesn't really it doesn't impact them. We've got news at all. So not much of a reaction at all.



All right. Thank you. That was all for me.



Thank you.



Thank you. The next question comes from Jack Hammond from Werribourg. Please go ahead. Your line is open.



Thanks for taking the question. Just one for me. You highlighted in the presentation that some of your BetBuilder capabilities, more Specifically in the NHL and MLB, give you a competitive edge compared to some of your peers. You also in the release provided some stats on soccer and the bet builder was responsible. I think it was for 15% of all pregame bets.



I was wondering if



you could provide any additional color on these stats for NHL



I would be happy to share with me if I had them in front of me. I think what you can do is to go back to Mia later on and she can provide it for you.



In general, it's a very popular product and that's what we've seen in here as well. So I think that's a key message, very popular products and which we will see now launching in more sports and will be beneficial for Canby and our market leading position. But if you want more stats, please reach out to me afterwards.



Okay, brilliant. Thanks very much.





Thank you. There appear to be no further questions. I'll return the conference back to you.



Okay, great. We have quite a few questions here on the chat as well. I think we start with the first one to you, Christian. What's your view on the long term market share in the U. S?



Do you expect it to be similar like today or could it change?



Yes.



I mean, it is very hard to guess, to be honest. I mean, We've, yes, big swings on some of the big operators. It is tough to have a good guess on it. But I still believe very much that we will also see, especially in a state like California, much, much more of local operators getting very large market share. So I think, yes, where we have been looking at lately after the PEN news, I think 15% market share would be a great number to strive for.



Okay. Thank you. Another one for you, Christian. Is the pipeline as strong as ever or has anything changed? What do you see?



I'm very, very pleased with the pipeline and And as I showed on the picture earlier, I mean, it is all over the world at the moment that we have good prospects, so very pleased.



Okay. One question for you, David. Quite a few about buybacks. What's your view there and the strategy going forward?



Yes. I mean, I think we've clearly demonstrated a few months here that we have to use our balance sheet both for buybacks but also acquisitions when we made an acquisition in Q End of Q3 last year. So I wouldn't rule it out, but equally, I think more importantly, I think we've got that strong balance sheet now that gives us the firepower either to use it for buybacks all M and A as we see fit. We will do something with the balance sheet as well as maintaining a strong core, which our customers rely on as well that we you have that strong balance sheet? So definitely when we roll it out and it's we actively monitor it, I would say.



Okay. Thank you. Another one from for both of you actually. When do you expect to see year on year revenue growth again? Is there anything you can comment on?



We can do forecasts. I mean, we just got to make the most of the tailwinds I talked about, new customers, new states And organic growth. I mean, those are the three things that are really going to drive revenues for us. I'm not going to put a date on it when we get growth, but Those three things plus the seasonality we're always seeing in Q4, Q1. Those are the real tailwinds in our business.



So we just got to keep Selling, delivering the best product and yes, the revenue will come.



Yes. And we won 4 awards, so 3 awards 2 awards but 4 prizes. Christian, could you expand on the Tier 1 considering outsourcing strategy?



Yes. So I mean, I can't obviously give you any names, but what we see in Europe now is that, I mean, there are quite a few operators who are looking at what we have in house. They struggle to keep up with competition when it comes to product and they need to do something It's definitely something we are very, very positive about for the future.



Quite a few regarding the modernization strategy. Is there a risk that the current customers are trading down with this strategy?



I think that is one of the pieces that we are still not finished with when it comes to developing the services. Obviously, we are not really keen on a modernized in a way that cannibalize on our existing fully managed services. So that's something we are very tightly looking at.



Okay. Thank you. Here's one for you, David. Can you please comment on how flexible your operating expenses are?



Yes, I mean, that's relatively inflexible insofar as a lot of it's fixed and the variable part that we see The flexes up or down with new states or new customers is quite small, probably 10% to 20% of the cost basis. Is that kind of variable part? But I'd say as long as we're delivering revenue growth and keep doing the right things I talked about previously then that scalability that's inherent in the business model will lead to increased profits ultimately.



Yes, then we have a question regarding Asia. You haven't really explored Asia before and today, you released some comments on it. Can you elaborate a little bit more about the markets and the possibilities? You said it was a bit longer further ahead, but



Yes. And the reason we have not really explored the issue is that we are trying to stay in Regulated Markets. We see some things happening in Asia, but it's looking very positive. And I think, yes, closest to it is Philippines that is looking at having some sports betting licenses as it looks like. But for India and Japan, it's a further away.



I said before when you commented on it, but it's probably on the horizon 3 to 5 years, And I still believe that is the case. Okay.



Here is one question about the operating margin. We raised it a few quarters ago. And now with the BetBuilder, do we expect to raise that or guidance, I mean.



Yes, we have raised it several times during the last couple of years. We are always monitoring it and it's not impossible, but we are raising it. But there is also possibility that we are pushing for slightly improved paybacks to the customers as well, especially on the bet builders where we have very, very high margin at the moment.



Great. And I think we have the last question. Are Penn using Canby Sportsbook in Canada?



They are not it's Under Westcore brand and they're using the same provider that they had in yes, the AtlasCore in the U. S.



Okay. Thank you very much. And thank you for your questions and for listening to our Q1 report. I will present our Q2 report 27th July. So I really hope I will see you then again.



So thank you very much and have a good day.

Kambi Group

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Thank you.



Thank you.

