July 27, 2022

Kambi Group

Q2 2022

Prepared Remarks

Good morning, everyone, and welcome to Canby's Q2 2022 Report Presentation. My name is Mian Nordlander. I am Senior Vice President, Investor Relations. And today, I have our CEO, Krista Neiland and CFO, David Kenyon, with me. They will present the quarter for you, and thereafter, we will have time for questions.

So if you have any questions, I suggest that you either call in or that you write them in the web here on the page. So over to you, Christian. Please present the quarter for us. President.

Thank you,

Mia, and good morning. So today I'm planning to go through the highlights first and then hand over to David to run through all the numbers and then I come back and talk more about the Q2 in detail. So the highlights, I would say we had a very robust financial performance against very demanding 2021 Comparatives. A tough comps, I think first of all last year it was a European Championship and Normally, we would have expected a World Cup this year, but that is moved to December. So the sporting calendar is Quite slow visa summer.

We also don't have the same kind of revenues from Netherlands Since our operators pre regulation, nearly re regulation in Netherlands is still not operating. Of course, we have, as I will talk about later, Kindred coming back into the market early in Q3. And the largest factor, of course, is that all numbers We're still including DraftKings last year. So our operator turnover this year is up 16% If we exclude the DraftKings number. During the quarter, we also achieved a key milestone.

President. We were first phase completed of separating our pricing from a core platform in what we call of Trading Gateway, which I will talk more about later. We strengthened our partner network by extending our relationship with Bet Parks, we have a longer contract and we also signed Mohican Gaming in Ontario. And finally, we expanded in Americas our Americas reach We've day 1 launches in Canada or Ontario with 4 partners and then one more later on. We also have done quite a few launches in other countries, mainly in U.

S. And Mexico. With that, over to you, David.

Thanks, Christian. Good morning, everyone. So overall, this quarter, we saw a very strong financial performance. We continue to be profitable. We see underlying operator turnover growth, and we have a powerful balance sheet.

As Christian mentioned, we saw 16% growth in that operator turnover, Excluding DraftKings. And that's despite the impact of the Netherlands regulation and the Euro Soccer tournament last Q2. So very strong numbers there. And that strong turnover, allied with a margin of 8.6%, led to revenue of €34,700,000 Costs pre FX of €32,000,000 were in the forecast range, and they were offset to the tune of just over €2,000,000 on foreign exchange gains relating to the revaluation of our U. S.

Dollar assets. This gave an operating profit of €4,900,000 At a margin of 14.1%. And our net cash position of €74,200,000 gives us firepower to continue Using our balance sheet to drive our strategic growth. The next slide here is the Canby Turnover Index. It's an aggregation of the entire Canby Networks results quarter by quarter.

The blue columns are an aggregation of the operator turnover, indexed originally set at 100 when we span off the business. And the orange line is an aggregation of the operator trading margin every quarter. This quarter, the margin was 8.6%. And when we look at the comparatives, that was pretty high last this time last year at 9.3%. The operator turnover on the index is 656.

As Christian mentioned, it's a very quiet Q2. It's typically quiet from a sporting calendar perspective for many of our key sports. But of course, this year, there will be a World Cup taking place in Q4 and a condensed football calendar before and after that World Cup. So some strong months ahead. In more detail then on the operator turnover versus last year.

So the turnover went from 9.11 on that index to 6.56. Firstly, there were some big headwinds we should talk about. Firstly, and by far the biggest in terms of financial impact was the DraftKings migration, which we saw after Q2 last year. DraftKings accounted for 20% to 30% of our revenue in Q2 last year. In the Netherlands, of course, there was no activity with Kindred here in Q2 this year, but we are delighted to see them obtain a license and launch in early July.

And Euro 2020 was delayed to 2021, and the majority of the matches took place in Q2 last year. And again, we are very much looking forward to the World Cup Taking place in Q4 this year. Those headwinds have been offset though. There have been some growth factors here. We have new operators since this time last year.

They include BetCity, JVH and Rawa. We've moved into new markets, including Arizona, Connecticut, Louisiana and most recently Ontario. And we've seen growth from some of our existing operators, both in their organic growth and but also in their geographical expansion into new markets. This then feeds into A. The waterfall of the Cambi revenue conversion, which sets out how our operator turnover movement resulted in our revenue movement Versus last year.

So at constant exchange rates, operator turnover was down 32% on Q2 2021 for the reasons I've outlined. Due to the dollar being stronger than last year versus the euro, this decrease was reduced to 28%. The operator trading margin of 8.6% compares to the very high 9.3% last year. And there in the other column, you see a big, kind of positive impact on our revenues. There's quite a few drivers behind this one.

Firstly and most importantly, our customer contracts often include tiers, which charge significantly less on the upper bands of activity. So the lack of DraftKings and other factors impacting the NGR result in a relatively higher effective revenue share across the network overall. Secondly, we have more live events income this quarter and other fixed revenues, which are not driven by the levels of operator turnover. We also have revenues from our settlement with Mahig and Son, which is a fixed revenue each quarter. And we have revenues from The Ebyos business, which we acquired at the end of last year.

The net effect of all these factors is a 19% decrease in our revenue in total to

€34,700,000

Lastly, I'm going to talk about the cash flow. There's a few particular points to note this quarter. Firstly, the CapEx is slightly higher than we usually see. We've had some fit out costs in a couple of our offices. The tax impact you see on the right hand side there is higher than normal.

So we're due a tax refund as part of our year end tax position, and that's expected to be received in Q3. But that magnifies the effect of the tax outflows here in Q2. And in terms of inflows, we received €2,600,000 in relation to the option price on share options settled earlier in the year. The net effect to all these various cash flows is an increase in our cash position to 81,600,000. With that, I hand you back to Christian.

Thank you, David. Okay. So as I mentioned earlier, we have of course kept on working on our strategic work with modernization. And we have, yes, done one key milestone that was achieved during the quarter. And that is the trading gateway interface where we have completed the first Vice.

So for the first time, we have some stand alone pricing for low league soccer that are Not done through the normal way that we have done for many years, where Pricing and Trading and Technology was heavily intertwined. And it has served us well for many years. But We have a new set up. It will give us a lot of new benefits and also our customers that I will talk a little bit more about. So we have a creation of this standalone pricing functionality.

We now have a setup where we can Much faster develop new algorithms for different sports and Tweak them and change them much, much quicker. So we will have much faster pace on our internal development. It also gives us opportunity to package and sell products outside of the normal fully managed service. So that's a very positive modernization effect. Also it gives us another crucial element and that is that Our existing partners or future partners can now in the future be able to trade Some of the sports themselves, if they would like to.

And we can also give opportunity to our third parties, but We ourselves or our partners want to add to the pricing. So very crucial step for us. And we're very pleased to see that it worked very, very well. And it's still a lot more work to do on this gateway, but a very crucial and important first step. Another thing that we have managed during the year, during this quarter is a new betting market where we can bet on if a server in turn is making an ace within a game.

This is unique for our network, we believe. So it gives our operators A great differentiation from the rest of the market in a very popular sport in tennis. And this feature we update odds after every single point up until of course if an ace is being served within the game. And with that, we would like to show you a promo of this. Thank you.

So yes, I hope you enjoyed that little promo. So now I would like to talk a little bit about some commercial updates. During the quarter, we strengthened our presence more in Ontario. With signing an agreement with Mohigian and its False View Casino. The Forceview Casino is the largest gaming resort in Canada.

We have a very nice brand. So I think and hope that will strengthen our presence with a great local partner in Ontario. During the quarter, we have also extended the Green Wood Gaming and Entertainment Agreement and its Bet Parks brand. Positive about us being able to support them in their expansion into new additional markets. As every quarter, we have been very active.

We have a lot of new launches. So I think the total number this quarter was 18 new launches. And The major ones here, we went live in Ontario on day 1 with 4 of our partners. And after that, we have added a 5th during the quarter. On the final day of the quarter, we relaunched in Mexico with Rush Street entering the market.

Rush Street has built a very prominent position in the Colombian market, President and we hope that they will be able to do the same in Mexico. Online launches in U. S, we have done with Rush Fleet in West Virginia and with Soaring Eagle in Michigan. And on the U. S.

Retail side, we have done several launches, So I think 3 in total with Kindred in Arizona and also with Churchill Downs in Louisiana. So yet another busy quarter and we hope there is plenty more to come. At the moment, we are preparing for Kansas for the start of a new season's football season in September. And we hope Ohio is next in turn. We are still hopeful for sports betting regulation to get green light in Brazil very soon.

So that would be an absolute major market for us, of course. And a lot of attention for us will be on California in November In June, it was great to see us winning another 3 awards at the EGR Awards. We won the sportsbook platform over year for the 3rd consecutive year. So I think we Yes, cementing our position as the premium supplier of sports betting in the industry. We're also especially proud of winning the sports betting software innovation over year with our BetBuilder product.

We have been spoken a lot about our BetBuilder product in the last quarterly reports and about the possibility to combine across games and sports, which is fairly unique with Cambria. So it's very pleasing to see recognition it deserves from our peers and also recognition for all our people internally After Q2 or in July, I would say, Kindred has reentered Netherlands with Unibet brand. So yes, we hope that that will Be very positive for us going forward in Q3 and Q4. And with that, I think we have strengthened our position significantly in Netherlands, where we already have BetCity and JVH active since market reopened, re regulated. And we also expect additional partners that formerly was in Netherlands will reenter the market in the coming quarters.

So to summarize for Q2. As I started with, it was quite a normal quarter from a sporting Calendar Perspective. I think we have made some great progress on our strategic plans. We have achieved a key milestone We have a successful completion of Phase 1 of our trading gateway. When it's all finalized, it will deliver multiple benefits for Wolf Cambi and for our partners.

We have during the quarter expanded to support more partner launches in several different markets. And looking ahead, we expect things to happen in Ohio and Brazil. And as I mentioned, We're really looking ahead for November and the ballots in California. These three markets would definitely increase our TAM. We are a very profitable business with a strong financial performance, and we have a very strong balance sheet.

Vice President. So I believe we are very well positioned for the future. With that, I think it's time for questions. Thank you very much.

Yes. Thank you, Christian and David. We will start with the questions on the telephone. So over to you, operator.

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A. The first question comes from Oskar Ronkvist with ABG. Novice.

Thanks. Good morning all and thanks for taking my questions. I have 4, if that's okay. So starting on the recruitment pace, I noticed you only hired 10 people net in the quarter, had quite a steep decrease comparing to the 6 previous quarters. So I I was just wondering if you had any comments on the recruitment pace and what we can expect going forward.

Yes, sure. I think we are recruiting quite well. I think as Many other companies after COVID has had a much higher staff turnover than we are used to see. So net, it's looking a little bit tougher at the moment. Having said all of that, I think We also see that there is quite a few of the larger competitors when it comes to tech people here in Stockholm who Are decreasing first off.

So I think it looks very positive going forward.

All right. So can I interpret that pace should increase a bit in Q2, Q4?

Yes, definitely hope so.

Okay. Thanks. I had a question next on your OpEx and OpEx Vice. But first, David, could you explain, you had a positive FX impact on the OpEx. Is that correct?

Correct. Yes. As you can imagine, with the majority of our business now coming from the U. S, we do have a lot of cash inflows in U. S.

Dollars, and the dollar has strengthened significantly, Both versus Q1 and equally against Q2 last year. So yes, that's a kind of a one off unrealized revaluation on those In the books on those U. S. Dollar accounts.

All right. But on your OpEx and OpEx guidance, you have seen both Q1 and Q2 coming in well below your guided midpoint, yet your new OpEx guidance midpoint is raised slightly. So Just looking at the midpoint of your Q3 guidance and the implied Q4 OpEx then, that would be a Q over Q increase of 12% 14%, respectively. So can you just share your explanation of what is driving the slow costs in H1 and why H2 2 increases massively.

Yes, I think a lot of this is actually FX related back to your first question. So actually, when you add back the FX, the real underlying OpEx this time is actually towards the top end of the range, Probably €32,000,000 pre FX. And when we set the that full year guidance, we tried to strip out all FX because we don't just kind of speculate what's going to happen there. So actually, we've probably done adding back that FX €62,000,000 first half of the year and then the midpoint of the guidance is probably €68,000,000 for the second half. So it's Yes, it's probably lower percentage growth quarter on quarter than it looks.

Okay, yes. That makes sense. So next one on your net cash position, it remains quite large. So can you say anything about your M and A pipeline? Like Is that the main explanation behind keeping EUR 80,000,000 in cash?

We are definitely looking at M and A As we always are, can't of course comment if we are close with anything, but We are definitely open to do M and A. And if we can't do At some point, I think we will look at other ways of distributing the cash.

Okay, understood. Christian, just a final one. The last sentence in your CEO word explains your excitement for H2, for instance, mentioning partner signings. So just given your previous communication of a strong pipeline, if it has, like how has that changed over the last few months? And Should we expect the signings to be Tier 1 operators solely?

I don't want to comment about Signings before they happen, but I am still very excited about the pipeline and I definitely Hope we will see some signings happening. As I have said many times before, Signings are often very tied to new regulations. So It's hard to know when time is will be, but I feel very good about our opportunities going forward.

Okay. And just a follow-up. Can you share if it's more in the Europe or more in Rest of World or in the U. S. That you It's a strong pipeline.

I think in Europe, I mean, it's so many fewer opportunities out there because the market is much more settled. So the opportunities definitely More of them in the U. S. And in our parts of the world. But Yes.

We have some opportunities in Europe as well.

Okay, got it. That was all for me. Thank you very much.

Thank you.

The next question comes from Victor Hogberg with Danske Bank. Please go ahead.

Yes, good morning. Just another question on the OpEx guidance. If you would put it this way, is the underlying OpEx guidance the same for the top end? It's €133,000,000 now, €135,000,000 for the difference between the positive €2,000,000 effect in Q2. Is that how we should read this?

No, not really. I think we've narrowed the range. So we've taken it down to a €5,000,000 range as obviously we get closer towards that full year position. Yes, that guidance again is completely excluding FX. So we've had €2,700,000 in the first half of the year.

And Vice. The guidance is excluding that. So that €2,700,000 in our world is we'll reduce that number. But again, we're trying to guide without FX. We've narrowed the range down into the middle.

So we have seen in without the effects we have seen in H1 already, is Is that how we should read it as well? Or is it only or that you won't speculate on FX movements in the second half?

No, it's without the FX we've seen in H1. So yes, the €1,200,000,000 to €1,33,000,000 be completely out, excluding that €2,700,000 that we've seen in the first half. So that would actually reduce that €1,200,000,000 to €1,33,000,000 on the books.

Okay. Yes, yes, yes, so that we get it. If you were to come in at SEK 133,000,000 then reported, What would that mean if FX were we wouldn't see any FX movements in the second half, just the ones we've seen in the first half. If we see a reported FX number of SEK 133,000,000 for the full year, what does that mean?

Then you would see SEK 133,000,000 less SEK2.7 billion in the books, So SEK130.3 billion in that case, if there's no other FX movements in the year.

Okay. Thank you. And on the customer signings, on the previous question, And this is for Christian maybe. On the CMD last year, you talked a bit about the potential and Aviso, a midsized or decently sized European operator that might have come to Roadside when it comes to protecting the development today might be looking at outsourcing. You talked a bit about that.

We haven't Is that opportunity still there? Have that potential signing decided to do something else? Or is that opportunity still there?

It's still multiple, it's not only one, but there is the same ones I was talking about then is still there.

Okay. And have you would you say that the The potential of the prospect to sign them is better or worse or the same as last year?

I will not comment on that.

Okay. And did you say and maybe for David, did you say anything about the ABOs, How much that contributed in revenues in Q2?

I didn't, but yes, they contributed around €500,000 this quarter, Small net profit for them. But I think that looking forward into H2 when they launch the OZ product, which could be hopefully in Q4 now, device. That's probably when that profitability is forecast to increase for them.

Okay. But Q3 maybe revenues at the same level?

Yes, you can expect that. I mean, it shouldn't be lower, at least.

Okay. And on the modernization strategy, we previously said that It's reasonable to expect the first potential signing on this one in the first half or the early parts of 2023. Is that still The same time line you would say or any revisions to that potential time line for adding customers in this one?

I mean, as usual, it's hard to know when we do signings, but We still believe that there is an opportunity for us to be able to market and sell it in Q1 next year.

Okay. Speaking of sports schedule, it was Novice. Really slow now in latter parts of the second quarter. It's still snow now during the summer, but it's going to ramp up and then we have Kindred live in the Netherlands as well. What do you expect in terms of sequential and Aviso.

I I think we can't give a and we won't give a sales forecast, but I mean, you can say that the football season is starting a little bit earlier than normal. So I'm with Kindred as well, as you mentioned in Netherlands at Q3. Yes, we're looking forward to a busier sporting schedule and hopefully that comes through into the revenues in Q3. And Vice.

Okay. And last question for me. On the regulatory movement side, would you say on an S basis that it Has improved or is it at the same level as when you did the Q1 call?

I don't think it has become Long term better or worse, but I am a little bit disappointed about Especially with PEACE in Brazil, which I definitely thought would happen during the year when we talked last time. And I'm starting to doubt that it will happen in 2022 now.

President. As there are no further audio questions, I would like to turn the conference back over to the speakers for any written questions.

Thank you very much. I think we start with one for you, Christian. We've seen competitors seeing major growth in Latin America. What's Cambys position in Latin? And Are we seeing any possibilities in the region?

Absolutely. I mean, that is Region, we look at very positively. I mean, we have a very, very strong position in Colombia. We have partners in Peru and in Argentina already. And we keep on, yes, looking at more and more partners in Latin America.

But I think the big thing that is a big focus for us now is to find with suitable partners for opening of Brazil.

Thank you. One for you, David. Are we considering buybacks? Or what will we do with a big cash position and Low Valuation of the Stock. Just one question.

Yes, it's a good question. I mean, in the last 12 months, you've seen that we've done both M and A and share buybacks, and Vice. So that's absolutely on the radar on the agenda. In terms of M and A, there's some key areas that we've talked about before where we think which Could really strategically drive the business. So I think M and A is absolutely on the agenda, but also buybacks.

We've done it recently, and it could well be that we do it again.

Thank you. One question for you, Christian, with our new modernization strategy. We're saying that Offering operators greater control over pricing will drive broader operator appeal, particularly among those that wish to trade 1 or more sports in house. Have you had any specific interest from operators regarding this?

We have. And I think that has been Something we have had interest for many, many years, but we have not felt that That has been something we have been able to prioritize until now. So there are definitely a few opportunities out there already now. But yes, it will certainly increase our addressable market going forward.

Okay. I think that was the last question from the web as well. Thank you very much, Christian and David, and thank you everyone for listening in to us. We will be back with our Q3 report 26th October. So I look forward to see you then again.

And if you have any questions, always feel free to reach out to the IR department. Thank you very much and have a good