

October 26, 2022

Kambi Group

Q3 2022



Prepared Remarks



Good morning, everyone. We are here today to present our Q3 2022 report presentation. And today, with me, I have our CEO, Christian Neveen and our CFO, David Tennian. We will start to present the quarter. And after the presentation, you are very welcome to send your questions through the website, site or you can also call in to ask them here.



So once again, very welcome and over to you, Christian.



Thank you, Mir. So yes, everyone. I will begin with a brief overview. Turn to the next slide, please. After which, David will go Q3 financial performance.



And After that, I will go in a little bit more depth on the quarter before we're taking some questions. So Q3 is notoriously a very weak quarter over year, very Q3. Especially since we started in the U. S, it has become even higher seasonality impact Since the 2 big sports, the American football only has 1 month in September and the basketball DraftKings having some turnover in early of a quarter. And We also last year had a big soccer tournament, the Euros, Which had the last matches last year.



More about the impact of that, they will talk about. We also are in a down tough global economic situation. I would say for us, the impact is a little bit softer since we have a lot of business in the Americas The economics looks slightly better and also we have a very strong currency in the dollar. Outside of that, I think we have done 5 signings during the last 3 months. So very happy about Where we're going there?



Especially great Canadian that came after the end of the quarter is Great signing, which I will talk more about later on. German quarter, we also signed the front end specialist shaped games, Which will have a great impact on our offer, where they Yes, our having a front end, which is something very much desired by our prospects, and it fits very, very well into our story, and I will talk more about that later. And finally, We have identified BetBuilder as the first product we will go with A modularized offer, and we'll talk more about that later. And the plan is still Over to you, David.



Thanks, Christian. I'll turn to Slide 4. So yes, we saw overall a robust financial performance this quarter. We continue to be profitable. We used our powerful balance sheet to fund the purchase of Shape Games and we look forward to a very busy sporting calendar in Q4.



Revenue of €36,700,000 was driven by operator turnover growth of 12% and an operator trading margin of 9 point 5%. And it's against the comparative you see there, CHF41,600,000 which included around 30% from DraftKings in its last quarter under contract with us last Yes. Costs before FX and before the shape acquisition or costs of shape which are added to the P and L were 32,800,000 Which was in the forecast range we gave last quarter. And this led to an operating profit of €3,900,000 for the quarter at a margin of 10.6%. The net cash position of €38,100,000 reflects the €35,000,000 we used to acquire Shape Games during the quarter.



The agreement with Penn that we announced recently has seen the €12,500,000 termination fee paid after the quarter end. So I can expect this cash balance to increase significantly during Q4. Turning to Slide 5. This is the operator turnover index. It sets out an aggregation of the results of our operators.



The blue columns are an indexed turnover across the portfolio. On the orange line is the operator trading margin again Aggregated across the portfolio. This trading margin for the quarter was 9.5%, very high this quarter against 9% Q3 last year. Year on year, the turnover went from 5.73 to 6.40 despite Q3. And actually should be noted there were some factors increasing the comparative that against the 573.



So firstly, DraftKings, the tail end of their business, actually did fall into Q3 last year. So that added around 40 index in Q3 2021 and also the last 7 matches of the Euro 2020 soccer tournament also in Q3 last year, which added around 20 to the index. But these positive last year were offset now by this time this year by a number of factors including new customers we launched since then and new markets we've launched into, Connecticut, Louisiana, New York amongst others. I really want to drill down into that 640 because it's quite an interesting quarter. We start with July We have a very kind of a quiet sporting calendar.



Then during August, we see the return of the major European Soccer Leagues. And then in September, in the middle of the month, The NFL season starts. So we see a very rapid progression of the index turnover during the quarter, up to 257 in the month of September. Rolling that forward into Q4, in October onwards, of course, we'll see full months of NFL and The NBA season also started last week and the college basketball season will begin in mid November. On top of that, the Soccer World Cup also starts in mid November and runs for a month before the major European Soccer Leagues resume in short order after that.



So I think the Q4 sporting calendar is going to be extremely busy and the September run rate you see here should be exceeded each month in Q4. Turning to Slide 7, the revenue conversion chart. So at constant exchange rates, Operator turnover was up 5% on Q3 last year. This was boosted by the dollar being stronger than last year versus the euro. This grew the growth to 12% in total.



As I mentioned, the operating trading margin was higher than last year at 9.5%, Up from 9%. Whilst tax and marketing deductibles were also higher than last year, with increased taxes That we shared in the Netherlands, Connecticut and New York amongst others. The biggest factor on this chart, of course, is in the other column. And it's a significant negative impact this quarter. The biggest single item there is DraftKings.



So in Q3 2021, Approximately 30% of our revenue came from DraftKings and the vast majority of that was shown in the other column in Q3 last year. That of course disappears this year. But that negative is offset by, to some degree, by fixed revenues from Mohegan Sun, by our revenues from Avios and also by the revenues from Shape, which accounted for around €1,000,000 in the month of September. So the net effect of all those items is a 0.12% decrease in our revenue to 36,700,000. Turning to the cash flow on Slide 8.



So our opening cash balance at the start of the quarter was €81,600,000 And as you see, the biggest single item affecting the cash was the acquisition of Shape. We used €35,000,000 of our cash and that took the closing balance to around €45,000,000 As I mentioned, I think this balance increase significantly during the quarter. Not only do we expect the very busy sporting calendar to generate good results, but also the recent agreement with Penn has seen that 12,500,000 Q3. And finally, I wanted to introduce Shape Games. From a financial perspective, we've bought a profitable and fast growing company.



They work with a number of major operators including Danske Spiel, North Tipping and JAK Entertainment. The revenue model works in a number of ways. They offer it in different ways to different operators, but it can be either through fixed fees, A revenue share or on a per resource basis. The biggest cost they have is their staff. They have around 70 staff mainly based at the head office in Copenhagen.



And we look forward to a successful partnership going forward. So with that, I hand you back to Christian.



Thank you, David. And I will continue on shape. So I mean, we are always looking to improve our offering. And I think one area where we have for a long time taken a very conscious decision is to Not invest in native front end applications. At this point, we felt that this is something that more and more of our prospects and customer base are Asking for and therefore, we have for some time been partnering up with especially Shape when it comes to native front ends.



So this deal was very natural for us. We knew very well, and we felt that we had a very good culture fit. But on top of that, I mean, What we get here is a front end that is very customizable That gives our operators even more differentiation capabilities. They have also developed a wide range of engagement products such as an AI driven recommendation engine. We have a lot of social features and we have a free to play application as well.



That Jack Entertainment are currently using waiting for Ohio State of Ohio to So in short, I think we have taken a major leap when it comes to user experience. And I think Shape games is a great fit for us and comes, as David mentioned, with some fantastic customers themselves. On top of that, I think Shape Games can Really benefit from gaining access to our partner network and possibly make few customers of our existing customers. We have been talking a lot about the modernization in the last couple of quarters and The plan is still progressing very well. Now we have come to a decision that the The first product we will modernize is the BetBuilder.



BetBuilder, I think we have been winning awards because we have a very standout product in the market. Now we have basketball being launched just in time for the NBA season. We have a full suite of the U. S. Sports and with that also the 5 biggest The team sports for the Canby Network.



We have looked a little bit on the interest and we feel that there is definitely an interest in market. And it will make us give us a possibility to penetrate A market that we have currently not really have an access to. So we're really looking forward to this. The plan is still to go to market. We've modernized services in Q1 In 2023.



We have done a lot of signings. In the last 3 months, we have done 5 signings during Q3, 4 of them. Oak Lawn, which It's have been a customer of ours through Churchill for some time, but now we have a contract with them on Baron. And with that, we also added the online to what we had before in retail in Arkansas. We have Elanie, which has C.



A very large casino in Washington State, which means that we enter the 90th year state with Washington. I think this is a state that we foresee being only retail for some time. So having one of the best located casinos in the state It's very, very good for us. Thirdly, we have Mohiga, which we have had relationship online, but now also we have an own property deal launching in 2 casinos in the state of Ontario. And lastly, on this slide, we have Onbis, which are operating in Argentina.



And with this agreement, We can expand our reach in the in the Argentinian market from 3 provinces currently to potentially 10. So very happy about that. Of course, we have also been busy with launches. And of course, the biggest one this quarter has been Re entering the Netherlands with Kindred. And as Kindred reported themselves During the Capital Markets Day, we have done better than they expected and yes, Taking quite a decent share already of the market in the Netherlands again.



We have, of course, As I mentioned earlier, launched the 2 casinos in no, the online sports book for Mohegan in Ontario. And finally, we have done 6 partner launches in the U. S. 2 of them worth Mentioning is the first entry for Max After Q3, we have done probably what I believe is the most important deal to talk about here and that is Great Canadian Entertainment. Great Canadian is one of the largest casino operators In Canada, and we will be launching in 10 properties in Ontario to start with.



Great Canadian is also owned by Apollo, Which owns numerous other gaming assets. So hopefully, that means that we Have an easier access to some other potential partners in the future. We also mentioned after Q3, we have come to an agreement with Pan. This agreement means that Pan will stay on for retail to somewhere in 2020 More importantly, it also means that we will receive 27,500,000 dollars in early termination fees, but also transition fee that will be Spread out over the remaining period here. We have Agreed to corporate, we have some additional state launches.



We have done Kansas just recently, and we have a few others what We will do later this year or early next year. I think it's very important also to point out that During this time up until they leave us, we will, of course, continue to to make commission on their revenues for the part of a business that We continue to operate, which is more or less everything we operate now up until Q3 2023 and after that all of the retail properties for another period of time. So to summarize the quarter, With acquisition of Shape, I think we're taking a major leap forward on the user experience side. I believe we are putting ourselves in a great position with the product we have at the moment. We have very positive commercial momentum with 5 signings during the last 3 months And most notably, as I mentioned, a great Canadian.



And I also would like to mention that the pipeline remains Still very strong. And I think we're very well positioned to withstand The global economic outlook, I think B2B business We'll thrive going forward. And also the sporting calendar is It's busiest and we're looking forward to see all the big U. S. Leagues up and running soon and We're looking forward for a World Cup in November December.



So with that, thank you very much. And let's take some questions.



So thank you very much, Christian and David. It sounds like you are pleased with the quarter despite a very quiet boarding calendar and very excited about the future. So we're going to start with the questions from the phone. So over to you, operator.



Thank you very much.

Kambi Group

Q3 2022 | Oct 26, 2022 09:03



Q3.



Q3.



Q&A



Ronnqvist from ABG. Please go ahead.



Thank you, and good morning, guys. First off, I just wanted to hear your thoughts about the sort of the turnover growth sequentially. You said that you're pleased with the quarter. So when we have like Rush Street in Mexico, Kindred, Netherlands, Ontario ramp up, Penn, Kansas, sort of the like for like growth excluding all the sort of headwinds. I mean, it should be down quite a lot from Q2 levels.



So can you just explain To me, I mean, obviously, we have some sort of seasonality, but are we sort of thinking that, that seasonality impact isn't as great as You might think.



Yes. I think, I mean, the seasonal impact between the quarters is And I think you will see that in Q4 now, as I said, I mean or as David said, I mean, we expect all 3 months in Q4 to quite handsomely Beat out September. We had, as we mentioned, a few Headwinds when it comes to seasonality as well, especially when it comes to having some revenue still from DraftKings, but mainly having the ending of the Euro championships from last year.



All right. So that's why we saw better sequential Obviously, but I mean sort of Q2 should also be a very quiet sporting calendar, as you also mentioned in the last conference call, right?



I mean, the U. S.



Sports are Q2. I mean, the U. S. Sports



are sort of



ending in April and then the NFL is ending in February. So Q2 should be really quiet As



well. No, I mean, basketball or the NBA, I mean, I think the finals is usually in June. So that is going on for quite much more of a time. You have the soccer is usually Somewhere late May and the ISOC, you also have a final in June. So Q2 is usually a much better quarter than Q3 also.



The other point is that is the operator's trading margin which was a point higher here in Q3 versus Q2 which of course has somewhat of a dampening effect on this Q3 number for the turnover. Yes.



All right, got it. So then just on the operating expenses. So Sort of excluding the Shape Games acquisition, which obviously comes with some staff, I think that your sort of FTEs are not up Really that much since Q2, and it wasn't really up that much from Q1 to Q2 either. So Are you sort of not hiring people at the moment? Or how should we think about that going forward?



Yes, it's a good question. I think I mean, obviously, there's impact of attrition as well. So it's not been a massively conscious decision to this stage To stop hiring, it's more been making sure we can fill the gaps. But I think more importantly is what we talk about going forward. We've talking standing here and talking about slowing down our rate of cost growth ultimately because we've been spending on projects such as automation, which are intended To be able to lead to longer term cost growth slowdown.



So I'm really pleased that we can announce today that we We'll be slowing that rate of cost growth. At the same time, as we're seeing inflationary pressures on quite a few parts of our cost base, I think it's really important we don't ignore that and we take tight And make sure that when we do make new signings, like the ones Christian has talked about, that they will lead to skip the kind of to prove the scalability in the business model, which we've also Talking about so yes, it's the main thing is to look forward, and we'll give more details in future releases about what this cost growth will look like But just take it from us that we are working on making sure that cost growth does slow down.



All right. And does the Slowing cost growth have anything to do with revenues coming in slower than you expected or sort of the pipeline coming in slower than you expected?



No, I think as David said, I mean, 1st and foremost, I think it is a product Of us being able to automate more and more in the future. And also, I think, I mean, We have some obvious synergies that we need to realize when it comes to our own front end development And what we now can do with shape. So no, I wouldn't say that it It has very much to do with slower revenue growth. It's more about that we Feel this is a very, very good time for us to become more Prudent with our cost and now we really see that we have opportunities with more automation and some synergy wins to come.



All right, understood. Just a final question. You talked a lot about the sort of strong pipeline that you see. Is it anything that have changed over the last year? Or is it Anything that have changed from your what you're seeing now relative to what you've seen sort of 1 year ago?



And the great Canadian Signing, is that sort of the great pipeline that you have been talking about? Is that included there? Or should we see that Sort of better signings or larger signings further on, what do you think?



I will obviously not comment on what signings We will do, but of course, Great Canadian was a part of the pipeline before we signed them. But I would also say that, I mean, it's still very strong. And coming just Back from G2E, I feel we are in a very, very good shape going forward.



The next question comes from Ed Yong from Morgan Stanley.



Statement. I've got two questions, please. First of all, in your remarks, you said that the impact of macroeconomics would have been softened by Your large exposure to the early stage U. S. Market and also currency was a sort of factor in there.



Just to be clear, Do you think you've seen some impact of softness from the macroeconomic environment? Are you just saying that broadly, it will be harder to spot because of your So have you seen any? And then second of all, on the Bet Builder, I wonder if you could talk a little bit more about the modularization there. One of the issues that operators who have outsourced that product from other suppliers have found is that there's essentially been a friction between the odds Generated or odds used within the same game parlay and those from the remainder of their book, and that's created Some UX issues. How are you solving those if you're modularizing the product to Give to a supplier who already has their own trading and risk book for the rest of their offer.



Thanks.



So on your first question, I mean, it's so hard to See what is the cause and what it would have been if everything was still the same. I mean, since the seasonality is such a big Part of our turnover, we obviously have new customers that are growing quite handsomely. And I'm more saying that I mean, it's quite obvious that With the cost of living going up quite significantly, it will have an impact on What people can spend on entertainment and gaming in particular here. So it will have an impact, and I'm sure it has had some impact already. On your second question about BetBuilder, I think this is one of the big reasons we strongly believe that We have an opportunity here.



I think we have We can't list stronger product than the other B2B options out there. And I think we also may have a solution to the problem going forward on how to harmonize the pricing.



Thank you. The next question comes from Victor Huttberg from Danske Bank. Please go ahead.



Good morning.



So a follow-up on the pipeline. You talked about the opportunity of a European operator that might have come to Roadside when it comes to your tech development. Is that opportunity still there?



There are still opportunities out there, absolutely.



Okay. And ABRS, how much did that contribute with? You mentioned the shape contribution.



Yes. Hi, Victor. ABSD was around €500,000 in revenue and about €100,000 on the EBIT line.



So roughly trading in line with where it has been the past couple of quarters then. Is there any seasonality in that? Is it going as planned or what to expect from MPS?



Yes. I mean, like I said, it's not so much let's see, I think the path to greater profitability will be when they move into the making revenue from the odds on eSports, which is certainly in the pipeline and certainly We'd hope to in the first half next year be showing that increased profitability from that revenue.



And that's when you're going to launch that?



That's the Yes. Okay.



And on the turnover growth, the turnover index when you slice it up in the quarter that just went by. And looking into Q4, And do you expect all 3 months to be better than September? It sounds like you expect each month to be better than the previous. Is that how we should read it November better than October, December better than November and so forth, given the schedule.



Yes. I think certainly November should be better than October. The tricky thing is we the World Cup, I mean, it is a great tournament. It also means that a lot of Domestic Soccer Leagues is taking a pause. So I struggle a little bit to Feel confident on if it's a positive or negative, we have a World Cup for that period.



For longer term, it's surely a positive because the fixtures in the domestic Leagues, they have to be played at some point. But I'm sure that November will be Stronger than October. I would guess that December will probably



be,



yeah, On par maybe with November or possibly slightly worse.



Looking at shape, could you describe your P and L model, the drivers, what to expect in terms of growth, Doubling is revenue this year, but that's from customers going live. What to expect here? What's the market growth rate? And What's the opportunity for them to grow under your umbrella?



Yes. I mean, I think there's 2 ways they're going to grow their revenues. 1 is upselling services. So they offer quite a broad range of services and obviously they can enter with an operator with one service and then expand their offering. So that's certainly one and that would be one way of Growing that revenue.



2nd is new customers. I mean, currently with kind of just under 10 9 or 10 customers, there's clear potential For that number to increase. And I think with their fantastic offering, that's absolutely the plan that they can keep selling, just at the of the journey,



really. On the P and L model, is there any recurring revenues in the rev share, One time fees, how does it work?



It's really a mixture and it's flexed per operator. Some have part fixed and part Rev share or some and it's almost on a case by case, but certainly yes, You can say the costs are also linked to the revenue in a large degree because they are a lot driven by development Costs that they're providing on to the operators. So they're already profitable, and there's absolutely a reason to think that profitability grows as they



Q3. And in terms of their profitability, any Capitalizations in there that affects that, the cash flow will be mismatched with earnings? Or



The profitability we talked about in the press release, I think it was €2,800,000 last year and we talked about that potentially doubling this year.



And could you also help us with the phasing? If they're doubling their revenues this year story. From going live with new customers, what's the phasing of the time number of them going live? Was that all during the 1st part of this year? So we see the majority of the effect in 2022 or any effects from that also to Brazil in 2023?



I think certainly some went live earlier this year. I haven't got exact phasing on top of my head actually.



I mean, Jack Entertainment, of course, is live. We were free to play solution at the moment, but we expect the market to open in January. So I guess that's obviously making a difference.



Okay. Could you also you mentioned on the ownership of Great going forward. Could you expand on that comment?



Not very much. But of course, Being on the map of the owners as a supplier to Great Canadian, it Should, if anything, have a positive impact at least.



Thank you very much. Thank



you. Thank you. I now hand it back to the speaker for web questions. Over to you.



Thank you very much. Christian, I would start with you and modularization. The first one is how does the timeline look for launching BetBuilder as a standalone service?



Yes. As I said, I mean, I hope Q3. For us to go to market as I previously communicated in Q1, obviously, I don't know when we signed with first customer. Results. So that is a trickier time line to point to.



Okay. And here's a question regarding the pricing model of a moderized post book. Is it higher than regular take rate? Or how does this work? Anything you can comment on?



No, I don't want to comment on that until we actually go to market with it.



Okay. And another question is that if you plan to launch other models as well in the feature rather than pet pillar.



Absolutely. And we will continue communicating about this when we have more to communicate.



Okay. David, question for you. Why have the buybacks been halting in a period of volatile stock price. Anything you can say about buybacks, possibly in



the future? No, no, no. Well, you saw that we've made a massive acquisition for us, Fully in cash during the quarter, so that's clearly been we've known about that and we've been working towards that. I think the important thing now is we build that cash balance back up. That gives potential either for future M and A or more buybacks in the future, but it's for now, it's we obviously need some level of cash to stay in the business, but as soon as we can build it back Again, that opens up the door for those kind of transactions in the future.



Our customers require a strong balance sheet as well. I think it's important to remember. Can you also, David, elaborate other operating expenses, why it's up?



Why it's up from Q2? Yes. Well, Q2, we had a huge FX gain, which depressed those other OpEx. So we did have a gain in Q3, but it was much smaller than the one we had In Q2, which kind of artificially plays in the numbers, there was a few small extra costs we took in Q3, for example, the legal costs with the Shape acquisition. But By far, the biggest impact on that one is the FX.



Another question for you, Christian. Have you seen any customers transferring in Europe from internal solution to Canby?



We have seen a few, but it's not very recent. But I definitely see that this is something we hope for and expect to happen. Yes, we actually have one quite recently and that is a Belgian lottery, which transferred Q3. From Braun Technology, ours a year ago, roughly.



Okay, great. Here is another about modularization for you, Christian. Are you confident you can also sell modular service like BetBuilder to big Tier 1 U. S. Players?



I mean, there are limited amount of big players, of course, but I'm confident We have a product to sell to them, and I'm sure we will have discussions with them.



A few questions regarding future revenue. It's probably hard for you to answer that, but anything you can say, what it can look like? It decreased the time for sure.



Yes. No, I can't comment on future revenues. I can't say this much. I don't expect modularized services to be a main part of our revenues. What I do expect is that we will create a relationship with customers and being able to sell more and more services Q2.



So I think for us, it's more about getting a relationship with The Tier 1 operators again and being able to sell more and more services to them. And eventually, Our belief is that you will see a much, much bigger part of the services Being outsourced, but it will probably take a few years.



Here's a general question, I think. What do you see in the business in regards to M and A as the market matures primarily with big players expressing their intention to enter the market.



I mean, I guess it will probably not be so much M and A going on in the near future. It will probably be much, much harder to find capital. I think it's probably quite a large disparity between the valuation of Listed Companies and what companies that are not listed are looking at. Long term, of course, I think that you will see more and more M and A, which yes, it's just a natural part of the business.



Another one for you, Christian. What do we expect in terms of B2B competition space changes when SP Tech is gruffing off, what do you think about expansion into Asia? Two questions here.



Yes. First one, I mean, there is some competition out there. I think we are quite alone in The premium segment at the moment. But I mean, yes, you see some competition out there. Of course, I'm not very It's very exciting.



It's probably a few years away still. We We are waiting for a regulated market. But we have mentioned before, we think India and Japan Probably to our countries that are most likely to happen in closest timeframe, but It's probably 3 to 5 years away.



Okay. I think we're running out of time here. So thank you very much Q3. Thank you for listening in to us. We will be back with our Q4 report on Q2 February.



So we're looking forward to see you again. And as always, if you have questions, feel free to reach out Q2 to Dyer department in order to myself or to Chris. And I wish you a very good afternoon or morning, wherever you are. Goodbye.