

July 24, 2020

## **Kambi Group**

Q2 2020



## Prepared Remarks

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Welcome to Cambria's 2nd quarter results presentation. I am Christian Neilland, Chief Executive, and joining me is our CFO, David Kenyon. Please turn to Slide 2. I'll begin with a brief overview of Q2, after which David will take you through our financial performance. I will then speak about the quarter in a little bit more depth and also a few updates from Q3 so far.



But first on Slide 3, let me give you a brief introduction to Cambly. Kambi is the industry's trusted and independent sports betting 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 more than 850 highly skilled staff, forms the foundation of our service. The Cambys sportsbook consists of multiple elements from front end user interface and open APIs through to OGS compiling, Customer Intelligence and Risk Management, enabling our customers to offer their players the leading sportsbook experience on the market from day 1.



On to Slide 4. Canvys' business is built upon a revenue share model with our growth linked to our partner success. The foundation of our strategy is based on scalability. At no additional cost to our partners, can we continuously invest in product, people and technology to maintain market leadership? We operate an experienced in house trading and risk management team to optimize operated 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 these 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 Kambi and its partners to quickly and efficiently comply with regulatory requirements, removing a major barrier to market and allowing them to enter new markets as and when they require. Kambi is a trusted partner to more than 20 operators across 6 continents, including some of the most recognizable and successful brands in the industry. Together, we may 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 Q2 highlights on Slide 5. Despite the absence of many sports and leagues during the quarter, Q2 betting volume remained resilient. We have previously announced cost reduction measures helping us weather the major impact of the pandemic. The gradual return of Sporch, particularly during the latter half of the quarter, enabled us to regain some momentum with June operated turnover and revenue both ahead of a comparative month in 2019. The Q2 performance led to a marginal revenue gain for the first half of twenty twenty, which given the significantly reduced sporting calendar for much of a period, shows the resilience of our business when faced with adversity.



The quarter also saw us sign a long term expansion to our agreement with Colombian market leader Betplay. While we continued our excellent record of 1st market launches, enabling our partner, Russia Interactive, to take the 1st legal bet in Colorado and the 1st legal online bet in Illinois. For now, I'll hand over to David, who will talk you through the financial highlights. Turning to Slide 6.



Thank you, Christian. Good morning, everyone. Before I talk through the numbers, I'd like to give some context to this quarter, has, of course, been highly unusual from a business and financial perspective. Considering the outlook at the start of the quarter when there was a huge amount of uncertainty about when the sporting calendar would return, I'm extremely heartened by the Q2 performance. We reacted fast to make significant savings across a wide range of costs, and we did this whilst keeping the firm intention not to harm the long term prospects of the company and to be ready to go as soon as the sporting calendar returned.



When sporting events started resuming later in the quarter, we were able to deliver on our plan. We can see how this translated into the results on Slide 7. In Q2, we had revenue of €14,800,000 down 32% on last year. For the first half year, revenue was €42,700,000 marginally up on last year. Operating costs for the quarter were €18,100,000 giving an operating loss for the quarter of €3,400,000 Whilst for the first half year, we made an operating profit of €3,500,000 The cash flow for the quarter was +2000000 and the net cash position at the end of June was €39,100,000 Let's look at the income in more detail.



Turning to Slide 8. This slide sets out the Canby turnover index. The graph shows the aggregated results of Kambi's operators. The turnover is the total stakes placed to the operators by their end users. In Q2, operator turnover was down by 33% on Q2 last year.



This was a direct result of the impact on the sporting calendar of the global pandemic. It's extremely positive to note that turnover picked up steeply through the quarter, with 47% of operator turnover for the quarter generated during the month of June compared to 33% in May 20% in April. We saw an increase in the percentage contribution to turnover from the European market, attributable to the return of many European football leagues, the reduced U. S. Sporting calendar and the closure of U.



S. Retail outlets as a result of COVID-nineteen preventative measures. The margin represents the combined trading margin made by the operators. In Q2, this margin was 8.2%. We can see the conversion from the movement in operator turnover to our revenue on Slide 9.



Operator turnover was down by 33% compared to Q2 2019. This quarter, the effect of the significantly reduced level of operator NGR was to increase the effective commission rates charged to our operators due to the tiered structures in some contracts. The net effect is that revenue for Q2 2020 is down by 32% on Q2 last year to £14,800,000 Let's turn to the full income statement on Slide 10. Operating expenses for the Q2 were 18,100,000 euros They decreased by £2,900,000 compared to Q1, with over half of the cost reduction from savings in areas including data supply, travel and marketing and the rest from government subsidy schemes. Looking ahead to Q3, we anticipate costs will increase by \$2,500,000 to \$3,500,000 to around the cost level we had in Q1.



This increase is primarily driven by employee network and data supplier costs returning to pre pandemic levels as the sporting calendar continues to return. The operating result was a loss for Q2 of 3,400,000 with a profit of £3,500,000 for the first half year. And the result after tax was a loss for Q2 of £3,000,000 with a profit of £1,700,000 for the first half year. Now let's look at the cash flow on Slide 11. Set out on this slide are the major components impacting our cash position during the quarter.



Our opening cash balance was €46,300,000 Capitalized development costs in the quarter were €3,400,000 whilst the amortization charge on previously capitalized costs was £3,000,000 The cash outflow from our operating loss was offset by a positive cash movement in our working capital as we collected trade receivables relating to earlier months when revenues were higher. The net cash inflow for the quarter was €200,000 and our closing cash balance was €46,400,000 In summary, our financial performance has shown a high level of resilience during these difficult times. Now let me pass you back to Christian, Turning to Slide 12.



Thanks, David. The impact of the pandemic on the sporting calendar has been clear for all to see. Although things picked up later in Q2, we remain without a number of sports leagues and tournaments as a result of the pandemic. To illustrate the impact on this slide, we break it out on the year on year operating turnover comparisons for each month during Q2. As you can see, the operated turnover in April this year was 39% of last year's operated turnover.



During this month, table tennis was the main turnover driver across the global company network and remained the main turnover driver in the U. S. For the entire quarter, while the return on soccer had less of an impact. Meanwhile, in Europe, we saw Esports emerge as a top 3 event category. In May, operator turnover was 64% of what we saw in May last year, with U.



S. Seed driving numbers in the U. S. And the return of German Bundesliga mid May having a greater impact elsewhere. We saw a significant increase in average turnover per game in Germany as it benefited from there initially being no competition from other major European Soccer Leagues.



As you can see, momentum continued into June, where we actually saw a slight increase in turnover compared to June 2019. While we benefited from a larger U. S. Footprint than last year, we saw heightened interest in the return of PGA Tourballe, with a 3 event held in June, topping the turnover charge in the U. S.



For the entire quarter. Meanwhile, the gradual return of soccer leagues, including those in England, Spain and Italy also provided a welcome boost. In the English Premier League, we saw an average turnover per game increased by approximately onethree compared to the pre lockdown, perhaps benefiting from increased number of televised games and staggered kick off times. So in general, when looking at the quarter as a whole, we see can see the turnover increasing month on month, which bodes well for the future. Turning to Slide 13.



Until yesterday, return of major sports had mainly taken place outside of the U. S. Thankfully, this is beginning to change. Last night, we saw the delayed MLB season get underway, which was great to see. In the coming weeks, we have the scheduled return of 3 more major U.



S. Sports leagues in the shape of NBA and NHL next week and the NFL in September. Of course, like a lot of things at the moment, things are subject to change, but we remain hopeful these leaks can begin and end as planned. The impact of return of esports will undoubtedly be positive. However, it's unknown what the size of the impact will be considering we will have all four leagues playing simultaneously.



In more normal times, the sports are spread across the year with some overlap, but not to a level we will see this year. But whatever the outcome, return on spot is a major plus and we're excited to see how players engage over the coming weeks and months. Turning to Slide 14. I've spoken previously about the tremendous record at being first out of the gate on multiple occasions in the United States, And it's a record I'm proud of and one which sets us apart from our competitors. In Q2, we were able to support the online launches of Rush Street and DraftKings on day 1 of a regulated marketing opening in Colorado.



In the case of Rushbeat, we were able to process the 1st legal best in the state. To be able to get 2 partners to market simultaneously and ahead of the competition speaks volumes about the expertise in this area from regulatory compliance and operational excellence. In addition, we were also able to assist Rush Street taking the 1st legal online sports bet in the state of Illinois, With Rushbeat already undertaken the first legal bet when launching 1st in retail back in March. This was a significant launch with Rushbeat not only first to market, but to this day, they remain the only online operator live in what is one of the biggest states in the U. S.



This is what partnering with a trusted supplier brings, the ability to get to market early, often fast and thereby create valuable revenue generating opportunity. Moving to Slide 15. I was also happy we could renew a partnership with a very successful partner in Bessely. Canbi launched with Bessely in 2017 and since then has quite quickly established itself as the number one sportsbook in the regulated Colombian market. Not only that, but its performance has seen it grow to a level where it's now among the largest operators in Cambi network.



Cambie also have a good partnership with RushBit in Colombia, and this success leaves us well poised to enter our South American countries as they regulate. Turning to Slide 16. Now on to events after Q2, where it has been a busy few weeks. On July 1, we signed a new partner in the drybulk operated Four Winds Casinos. Four Winds owns 4 casinos in the U.



S, 3 in Michigan and 1 in Indiana. Within the space of 2 weeks, we were live in all 3 Michigan properties, once again demonstrating our speed to market capability. The agreement also strengthens our relationship with tribal gaming operators in the U. S. This sector is of great importance to Kambi, and we believe we offer many of the qualities tribal casinos look for in a business partner.



Already, we have signed with some of the largest drivers in the U. S. With 4 wins adding to our partnerships with Semitier and HIG and Son. Of the nearest 1,000 casinos in the United States, more than half are owned by travel groups. Therefore, it's crucial we build strong and early relationships in this sector, particularly when looking at future markets such as California, which may give sports book exclusivity to tribal casinos.



Turning to Slide 17. Already in Q3, we have performed 6 on property launches in the U. S. We have business schedule ahead of us for the rest of the quarter. In preparation for this period, our delivery team spent some time refining their processes to enable us to hit partners' timeline.



Lots of work goes in to providing the best service we can. And considering the testing conditions in the U. S, we have developed a remote launch process, which enabled us to launch partners without having people on-site. Not only does this navigate any travel issues, but it also creates up resource while giving the operator even greater flexibility on their launch date. In simple terms, enabling them to hit the go live button when they choose.



They don't require us to do it for them. This remote launch has been already been used successfully in recent weeks and will help us in the coming months as we work through more on property launches. As well as opening new sportsbooks, we have also been through a period of reopening booths that had closed during the pandemic. We have, of course, been working closely with our partners on this and have found our bring your own device technology to be of particular use given the social distancing measures that units are operating under. Unique to a market, bring your own device enables specialists to preload reflections on their mobile, creating a QR code, which can be scanned at the counter over kiosk for quick and simple test placement.



Not only does this play a crucial role in educating factors on the Catenas' digital product, but it significantly reduces the length of queues, reducing the time of counters and reduces contact with surfaces. Although bring your own device was popular pre lockdown, we are seeing even greater interest from our partners and prospective partners in the product due to positive contribution it makes to delivering a safe sports betting environment. Turning to Slide 18. As you may have seen in the report, we have updates regarding 2 of our partners, 88 and Draughtin, both of which secured Kambi with revenues for a period of time and put in place measures to ensure a smooth transition as they move to their own in house technology.



In the case of it to



date, as per terms of existing contract, they will migrate their players in UK and dotcom markets by the end of the year. While these markets make up little more than half of their total sports revenues, we have secured our markets, which make up material part of the business for medium term. As I say, 88 has previously stated, they plan to migrate all markets gradually over China. Meanwhile, we have also come to an agreement with DraftKings to harmonize the migration obligation as they consider their transition to a recently acquired technology. As stated in my press release, we have secured revenues until the end of Q3 2021.



We've ordered King's Porch betting revenue generated by Canby or following a migration away from Canby due to a normal revenue share agreement. In the case of both ADT and Draphene, we remain partners until the end of our contracts. And therefore, we seek to remain on collaborative terms. These updates today should also bring to an end the uncertainty surrounding the future of these partnerships. And finally to Slide 19.



Before summing up, I'm delighted to say that last night, KNOB won 2 prizes at EGR B2B Awards, the gambling industry's premier award ceremony. Canby led the way in the 2 key sports betting categories, sports betting supplier over year and sportsbook platform provider over year. This is a fantastic achievement and underlines our position as the industry's trusted sports betting supplier. But in summary, Q2 was no doubt a testing period for camping. However, we showed great resilience to whatever the major impact the pandemic had on the sporting calendar and came out of H1 2020 in good shape.



A return of some sport, including soccer and golf, enabled momentum to build throughout the quarter. In June, operator turnover and revenue posted year on year growth, which bodes well as we begin to see the resumption of U. S. Ports following their enforced absence. And thanks to the hard work of our fantastic staff, we can look to a future with confidence.



Having emerged from a testing quarter as a stronger business and ready to accelerate, we are great network partners in Q3 and beyond. Now I'll pass over to operator for questions.

## Q&A

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Thank you. Our first question comes from



the line of Victor Hedberg of Lantica Bank. Please go ahead. Your line is open.



Hey, good morning.



So a couple of



questions on the partner news you provided yesterday in the report. So starting with 888, no surprise that they're going to leave. They announced this already more than a year ago. But could you elaborate a bit about if this was in line with what you had expected in terms of the timing and the markets?



Yes. Hi, Victor. Yes, very much so. I think they have been quite clear to us that UK and dotcom was the 1st markets we have planned to move out from after Sweden. And positive news, I think, is that they are not planning to do anything very soon with the rest of the market.



Okay. And on draft Kings as well, we heard your comments back in May that they delayed their decision to migrate off from you. Would you say this is in line with your expectation, internal expectations as well with September next year? And also just to double check, if they were to migrate over to your own proprietary technology before that, you would still receive the royalty revenues generated on their platform. Is that correct?



That's correct, yes. And I think we have had a good discussion over the last couple of weeks with drafting on how to be able to support them in a good way, but also making sure that, yes, during this period, we get



If you look at the sporting calendar, as it looks now, if you compare with what the thoughts and what you're communicating in connection with the Q1 reporting back in April, would you say that it has improved more than you had expected it to? Or is it in line? Or where do you see the schedule compared with what you saw back in April?



I would probably say that this was as good as we could hope for. With the U. S. Leagues also coming up now, hopefully, I think it looks as good as we could have hoped for. Of course, there is still a big issue with some international sports such as tennis, for instance.



And I don't really see us coming out of that just yet. But as I said, I'm this was more or less the best case scenario for us up until now.



Okay. So given the momentum over the quarter, you stated the April, May June developments, June actually growing year over year in terms of turnover. Would you expect that it's possible to grow year over year for the full quarter? Or would you expect some fading on that effect for the quarter with the events that will occur?



Still, we don't really know. I mean, it is a little bit shaky with baseball and NBA, of course, and also the NFL that is planned to start in September. But I would say it's looking good. I would be surprised if we couldn't come back to quite nice figures compared to last year if this holds up.



Okay. And the final question. You provided some comments on costs development in Q3. Could you elaborate what you're seeing for Q4 and for next year and also for 2022? If you could provide some comments on that given that 2 of your largest customers are rolling off.



It's no surprise that I would guess that you're pan for this. So what do you expect in terms of OpEx from those clients leaving?



Victor, David here. Yes, I mean, for sure, we haven't kind of forecast that far out externally at this stage. I mean, what it says, the those plants leaving doesn't per se reduce OpEx, but our plans are ready to, at this stage, assuming all goes well with the return in the sporting calendar, we continue with our originally planned cost development, which was to keep investing to improving the product. Yes, that still remains the plan going forward, all things being equal. And I think there's many kind of commercial tailwinds to really support that.



And if you look at kind of future states coming on board, the growth plan of operators and the return of the sporting calendar, they're all kind of, from the top line perspective, supportive of us continuing this cost



growth.



Our next question comes from



the line of Milan Vanek of Veritas Securities.



First, a follow-up question on Cambi DraftKings agreement. It will end earliest 30th September 2021. Have you discussed the terms if the migration takes longer than that? If you could comment a bit more here. Thank you.



Yes. So to clarify, it ends in September 2021. But of course, we would support Draughtgjen if they were to have any issues and need to prolong it for some short extra time after that. All right.



And can you what can



you tell us about potential problems that may arise when changing from one provider to another?



I can't tell you anything about that. I don't assume any problems, but I guess the nature of problems is that you can't foresee them.



All right. Cool. For June, what can you say of the sports book margin in June in relation to the full quarter as well as could you say anything about how July started so far?



Yes. So I mean, I think I gave you quite a lot of detail from going below 40% of year on year comparison in June, being up over 100% in June. I think it gives you volumes of yes, how important the impact has been on sports resuming. With the U. S.



Sports resuming now late July, that will obviously add to that. Now you have on the soccer side in Europe, you will see a short break in many leagues. So that will probably dampen it a little bit. But all in all, I think this quarter should be well closer to normal than



Q2 has been. All right. And can you say anything about the sports book margin in June in relation to the full quarter? Is there anything special



there? In June, yes. I think it was slightly better than the earlier months. And that's kind of natural because in April, you had a much higher propensity of live betting due to that it was mainly table tennis and esports that was betting on, which naturally has lower margins than pretty much soccer, for instance.



And how would you say the competitive landscape has developed on the U. S. Market after the Esportec Grazhens merger, but also due to COVID-nineteen?



It's a little bit early to say, but naturally, I think our position has strengthened by one of our largest competitors buying both by an operator. So we're looking very positive for the future, but it's a little bit early to say anything about it. I don't think COVID had any large impact on our competition at this point. However, going forward, I would assume that outsourcing of sports betting would be viewed as much more positive because of what happened now. I mean, the operators operating with us, for instance, they hadn't didn't have to carry the burden of the fixed cost of sports betting as we are doing that.



So I think operators with in house solutions in many cases will probably look to the option of outsourcing in the future.



All right. Perfect. And then last question, more general question. What have you learned from COVID-nineteen both from the operator perspective but also in terms of playing player activity and factors?



I think a few things we have learned. First of all, I mean, even if we are fully dependent on sports, I'm very, very happy to see the resilience we have and that there are always something that is, yes, generating turnover and we're not going to virtually see, which was very positive. Another thing, of course, is how well the company has been functioned during this time with all offices closed around the world. So I think we are coming out from this period very much stronger and with very high confidence for the future.



Thank you. And as there are no further questions on



the line at this time, I'll hand back to our speakers for the closing comments.



All right. Thank you for your questions



and for listening in. We look forward to updating you on the November 6 when we publish the Q3 report for 2020. Thank you.