

April 24, 2019

Kambi Group

Q1 2019



Prepared Remarks



Ladies and gentlemen, welcome to the Canby Crew Q1 Report 2019. Today, I'm pleased to present Christian Nourlin, CEO. For the first part of this call, all participants will be in a listen only mode and afterwards, there will be a question and answer session. Christian, please begin.



Good morning, and welcome to Kambi's 1st Quarter Results Presentation. I am Christian Neillen, Chief Executive, and joining me is our CFO, David Kania. Please turn to Slide 2. In a moment, I will give you a brief overview of what was among another strong quarter for Canby, after which David will take you through the numbers. I will then speak about the quarter in a little bit more depth, including further U.



S. Expansion and new product launch. But first, on Slide 3, let's give you an introduction to Canby. Cambi is a premium turnkey sports betting service offered on multiple channels, including web, mobile and retail. Our service is managed from an in house developed platform, which has been continuously developed over the last decade.



The platform, together with more than 700 highly skilled staff, forms the foundation of our service. The Canvys sportsbook consists of multiple elements from front end user interface and open APIs through to orders compiling, customer intelligence and risk management, enabling our customers to offer their players the leading sportsbook experience on the market. On to Slide 4. Canvys business is built upon a revenue share model, with our growth dependent on our operator's success. The foundation of our strategy is based on scalability, and the majority of our cost base is fixed.



At no additional cost to the operator, Canvie continuously invests 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 property and integrity. We are publicly listed and have successfully obtained all licenses we have applied for. We power more than 20 operators across 6 continents, including some of the most recognizable and successful brands in the industry. Let's look at the quarterly highlights on Slide 5.



In Q1, we posted revenues of €21,000,000 a 28% year on year increase. Operator turnover was up 46% to an all time high. Operator trading margin was 7.8%. Kambi added 2 new customers in Q1, one being Muiigen Sun, is not only one of the largest entertainment destinations in Connecticut, but one of the biggest in the U. S.



Cambi will power their sportsbook in Connecticut. And as we revealed in our Q4 report in February, we also signed Rhinoceros operations in Q1. Rhinoceros is a new owner of MyBet, the German new facing sports betting brand. MyBet has already been launched on the Kjami sportsbook platform. We also launched free home property sportsbooks in Q1, all with our partner, Greenwood Gaming and Entertainment and all in Pennsylvania.



Cambi has gained a market leading retail position in Pennsylvania, and we are looking forward to a regulator permitting online sports betting shortly. I will now hand over to David Kurnian, who will take you through the financial highlights, Turning to Slide 6.



Thank you, Christian. Good morning, everyone. In Q1, we had revenue of €21,000,000 up 28% from last year. This was driven by the strong level of operator turnover from both existing and new customers and an operator trading margin of 7.8%. Operating costs for the quarter were 18,400,000 dollars giving an operating profit of \$2,600,000 at 12.4%.



Our cash flow for the quarter, excluding working capital movements, was €1,100,000 The net cash position at the end of March was 33,500,000 dollars Let's look at the income in some more detail. Turning to Slide 7. This slide sets out what we call the Canby Turnover Index. The graph shows the trends of the results generated by Canby for its operators. The turnover is the total stakes placed with the operators by their end users.



In Q1, we've seen turnover placed with our operators, up by 46% on Q1 last year, including growth from our existing operators and from new operators in the U. S. And Sweden in particular. The margin represents the combined trading margin made by the operators. In Q1, this margin was 7.8%.



We expect an average long term operator trading margin in the range of 6.5% to 8%. We are continuously monitoring our expectations for this margin. The operator trading margin fluctuates in the short term due to the outcome of sporting events with the highest betting volumes and value. We can see the conversion from operator turnover growth to our revenue growth on Slide 8. Operator turnover was up by 46% compared to Q1 2018.



The operator trading margin multiplied by the turnover generates the operator's gross gaming revenue or GGR. The operator trading margin of 7.8% compares to the 7.9% we saw last year. Overall, this led to an operator GTR increase of 44% year on year. Canby's commission is based on a percentage of the operator's net gaming revenue or NGR, which is after the deduction of gaming tax and certain marketing incentives. This tax impact has increased significantly, reflecting the increase in the part of our business coming from locally regulated markets, now in Sweden and the U.



S. In total, 71% of our revenues derived from locally regulated markets compared to 50% last year. The impact of certain contract extensions, the fixed part of our revenues and certain volume related commission tiers is shown in the other column of the graph. The conversion from operator NGL growth to our revenue growth is 76%. The net effect of all these factors is that revenue for Q1 2019 is up by 28% on Q1 last year to 21,000,000 euros Let's turn to the full income statement on Slide 9.



Operating expenses for the Q1 were \$18,400,000 We continue to invest in building the market leading sports book as well as the ongoing licensing and development of our commercial operations in the U. S. Looking forward, we anticipate sequential growth in operating expenditure of 4% to 6% for each of the remaining quarters of the year. This will be driven to some degree the speed of regulatory developments in the U. S.



Operating profit was \$2,600,000 for Q1 compared to \$2,000,000 last year. And profit after tax was \$2,000,000 for the quarter compared to \$1,500,000 last year. Now let's look at the cash flow on Slide 10. On this slide are the major components which impacted our cash position during the quarter. Our opening cash balance was €38,400,000 Capitalized development costs in the quarter were €3,500,000 whilst the amortization charge on previously capitalized costs was \$2,200,000 \$1,000,000 was received by the group as the option price upon the exercise of share options during the quarter.



The net cash inflow for the quarter was €2,400,000 and our closing cash balance was €40,800,000 So now let me pass you back to Christian, turning to Slide 11.



Thanks, David. In March, Kambi signed an agreement with Mohican Gaming and Entertainment. Mohican Sun is one of the largest casinos in the U. S. And one of only 2 casinos in the state of Connecticut, so they have an opportunity to take a large share of the sports betting market.



Operated by the Mohegan tribe of Connecticut, Mohegan Sun is Kambi's first Native American partner. Native American casinos form a large part of the U. S. Casino market and therefore is an important target market for Cambi. To form a partnership with 1 of the largest and most respected shoes, Cambly can be a trusted partner to Native American tribes.



Sports betting could be regulated in Connecticut later this year. There are bills currently in progress to do so. Until that time, Muegansaan is offering Cambys free to play sportsbook, which is a great way to build interest and a customer database ahead of a real money launch. Turning to Slide 12. Canby continues to build out its own property portfolio in the U.



S. In Q1, Canby launched free retail sportsbooks with Greenwood Gaming and Entertainment in Pennsylvania. We detailed the launches Parks Casino and South Philadelphia Turf Club in the previous report, both of which have grown well since launch. In March, we launched a 3rd sportsbook with Green Ward Gaming at its Valley Forge Turf Club. Cambi now powers 5 of 8 owned property sportsbooks in Pennsylvania.



In Q1, these properties generated more than 80% of the sports betting revenues. We also note the regulator recently said it expects online sports betting to launch in the state in the next few weeks. Having been active in Pennsylvania since November, Canvys partners are well positioned to be among the first out of the gate. Moving to Slide 13. Towards the end of Q1, we launched our version of the BetBuilder product, a feature which allows players to place in game accumulators using selections that are related.



Before deciding to build our own bet builder, we did consider using 3rd parties, but we felt that Cambi and our customers would gain greater advantage through a proprietary version, predominantly because current products on the market didn't offer players to complete a complete user experience, and building a proprietary version would give us a full control over pricing and risk and to give our customers the ability to control the user interface through our APIs. We'll shortly be adding in play functionality, and cash out is also in the pipeline. Now to Slide 14. Since the close of Q1, we have signed and extended the deal with National Lottery of Bulgaria. National Lottery has enjoyed strong growth in Bulgaria since switching to Jambi in early 2018.



As well as extending our deal in Bulgaria, the operator will use Gambit supply of the Moldavian National Lottery, with its sports book on a monopoly basis. Following the tender process, Moldavian National Lottery has awarded National Lottery of Bulgaria a 15 year license. We hope to launch online this summer, followed by retail rollout. In recent weeks, Cambi also won 2 awards at the EGR North America Awards. The event in Atlantic City saw us win Sportsbook Provider of the Year and Sports Betting Supplier of the Year, which is a great reflection of the quality of the Cambus Sports Book and the early success we have achieved in the U.



S. Now to Slide 15. In summary, Q1 was another great quarter for Kiambi, with strong financial performance across the board, including 28% revenue growth. Kiambi's global network of customers also continued to grow with operator turnover up 46%. Meanwhile, we continued our U.



S. Expansion, where we continue to set the standard with 3 on property launches and the signing of Mohig and San. In general, I'm very happy with Q1 performance, and we are looking forward to the rest of the year with confidence. I will now pass over to the operator for questions.

Q&A



Thank you. Our first question comes from the line of Christian



Hello. Can you hear me? Yes. Okay. Great.



Yes, just a couple of questions on the U. S. In the report, you speak a bit about that it's the state by state regulation and the rollout has been somewhat slow as of late, but do you expect it sort of or you hope at least that it will pick up over the coming months ahead of the NFL, over the start of the NFL season. Can you elaborate a bit on that and perhaps mention some states in particular apart from Pennsylvania, of course?



Yes. Christian, sure. Yes, I think very much is based on the experience from last year where you saw many states really trying to push to get the regulation through before the NFL season starts. And I expect the same pattern this year, but many states will want to be ready before the NFL season. And I think in fact what you saw after the NFL season last year, but it was slowing down the efforts to get it through up until now.



So I think this is a sweet spot for the next coming months where things will happen in the states that will go live before the NFL season. In terms of state



Yes, sir.



But could you do



you have some sort of tangible signs of that apart from the fact that, that was the case last year? What are you sort of seeing in the market this year?



No, I wouldn't say so. I think it usually goes very fast when some states are passing the bill. So no, I don't have any tangible things to give you here. States, we believe, are likely New York, only for retail. And then I think states like Connecticut, Ohio, Michigan, Iowa, Indiana is states that could very well pass legislation in advance of NFL seasons.



Right, right. And in those states that you mentioned, do you have potential partners or sort of tangible discussions with the potential partners ongoing at this moment? Or are they missing? Are they in the States that you're not in discussions with?



I would say we have discussions ongoing in every state. And in some of the states, we obviously already have partners signed up like in Connecticut to even more.



Right, right, right. But like in Ohio or Indiana, for example.



As I said, we have ongoing discussions in all of these states and many others.



All right. Could you talk a bit about the Swedish regulation and sort of your what you see from that? I mean, you have ATG as a new client and you also have some of the ones that have been around in Sweden for a time like Kindred, of course, and others. Just you mentioned a couple of words on Sweden Q1.



Yes. I think for us, Sweden has been very positive. I don't think we see so much of the effects of a bonusing as maybe other gaming verticals. It's really hard for us to evaluate what is what here. I mean, we have brought on ATG as a new customer, of course, and that's a big player coming into the market.



And obviously, that's a player that will take market shares from other operators. So it's a little bit hard to separate the effects here what is because of regulation and what is because a new large player has come into the market.



I understand that. And on MyBet in Germany, which launched, I don't know, a month ago maybe or a while ago, that sounded like a really interesting signing when you announced it. Could you perhaps share a few words on MyBeth?



Yes. We still see it as a very interesting signing. It's very early days, and I wouldn't say that they have so far really pushed for products. So it's too early days to give an indication if this will be successful or not.



Okay. And the cost guidance, you did say it was between 4% 6% quarter on quarter going forward, correct?



That's correct, yes. I think last quarter we said 5% to 7% first half and then going down to 3% to 5% second half quarter on quarter. I think it's really reshaping that guidance driven by the speed of regulatory rollout in the U. S.



Okay. So a bit faster for



Well, a little bit weighted in towards second half versus the first half really. Then Q1, we came in at 5%. We guided 5% to 7%. So 4% to 6% in the 2nd quarter.



And the office in Philadelphia, is that up and running now? Or is that going to sort of impact Q2 in perhaps a bit more?



I mean, it's included it is the lease signed. We will be opening the doors shortly and starting with our first half there. So yes, the costs are included in that guidance for the Q2. It's not a huge office. It's probably approximately a 30 man office.



So but yes, that cost is included in the guidance.



Yes. Okay, great. And just a final question. So Ron, in the general sort of pipeline, both Europe and U. S, could you perhaps share a few words on sort of potential customer new customer pipeline that you have at this present day compared to perhaps 3 months ago, 6 months ago or a year ago, just to give us some sort of feeling for where you're at right now in terms of potential new customers coming in?



Sure. I would say your focus is very much on Americas, and that includes both U. S. And Latin America. So I would say where you can really expect signings is mainly in the U.



S. And in Latin America, maybe not so much in Europe in the near future.



Okay. And in terms of ongoing discussions, the sort of on the same level as it was 6 months ago? Or do you have more discussions or less?



No, I think it's looking really, really good at the moment.



And the next question comes from the line of Victor Huber from Deutsche Bank. Please go ahead.



Hi, good morning. I dropped the line, so you have to stop me if I ask a question that was already asked. But regulated revenues, I see they increased 15 percentage points over Q4. And you've added Sweden since then or Sweden has regulated? And then you have some U.



S. Growth. Would it be fair to assume that your Swedish exposure is around 13%?



I mean, I'll leave it I can't be too specific. And we don't make that kind of level of detailed kind



of geographical split. But I mean, yes, you can say



the increase in tax is fairly evenly split between Sweden and the U. S. So you can calculate backwards to somewhere near that number.



Okay. And regarding Sweden and free bets, Kindred had a large amount of free bets here in Q1 with the new bonus scheme. Could you say something about the amount of free bets that you are taking on that Canby has to swallow? What is the cap for free bets?



I mean, it's very different between different operators. I can't really give you any details, but I mean, you can see, I mean, we are giving you some indication on the impact of taxes and incentives we are taking on. And I can assure you that the major part of that pile is taxes and not incentives.



Okay. And could you talk a bit about the Finnish tender for vehicles? According to the reports that I've read, you were not interested in that one. Is that correct? Or because Espitek took the contract.



Yes. Of course, we were interested in vehicles, but the terms and the product demands given in the tender was not very suitable for us. So yes, we did not actually proceed and reply to the tender.



Okay. So it's not that you lost it. You were the terms were unfavorable for you guys?





Yes.



Okay. And regarding competition in the U. S, what can you say about U. S. Competition?



Existing sports book or existing suppliers or maybe new entrants? Have you seen anything change of late?



Not really. I think it's very much the same playing field as it was a year ago. Of course, it's fierce competition, but I think we have positioned ourselves as the leading supplier. And I think we have a very, very good opportunity to win more deals going forward.



Okay. And on U. S. Sports betting, I think you mentioned that Super Bowl was the biggest, the largest turnover event largest event in terms of turnover for you guys ever, larger than the World Cup last year. Could you say something about the I guess, some European spread on the Super Bowl as well?



Or was the like was it like 95% Americans betting on that one?



Oh, no. I would say that even before you opened up, Super Bowl was a very popular event. It's the American football season may not be so popular week to week in Europe, but Super Bowl is an event that is followed very, very well in Europe as well. So of course, it's a massive event in U. S, but I would say it's a large event in Europe as well.



Okay. So the incremental increase in betting was not solely from U. S. Bettors. It was the added U.



S. Bettors on the European?



Exactly.



Okay, great. Thank you very much.



Thank you. And the next question comes from the line of Jarm Elba from Kepler Cheuvreux. Please go ahead.



Hi. Just a partial question on Pennsylvania now going online. I mean, looking at the New Jersey, the France's sports place, FanDuel and Ladd King took a strong position. Do you see I mean, now when FanDuel is looking to launch also in Pennsylvania, I guess, online, how do you think the other the competition will be there compared to the RCV? Any guesses on that?



The guesses, I mean, the fantasy providers, I mean, they have a fantastic database to start from. So they will be big players in every single state that they go into. Having said that, I think both parks and Rush Street, they are household names with casino brands in major cities such as Philadelphia and Pittsburgh. So I think they have a good opportunity to take a decent chunk of the market in Pennsylvania.



Okay. I see. And I don't know if you have any insight on that, but Sandoz will since we're growing a bit faster than Raskink now in New Jersey, do you have any insight on what drove that in March? Or is it just difficult to say?



Yes. I think, 1st of all, I think it's more a question to draft Kingston to Canby. But it's also hard to analyze exactly what I mean, it's still so early days. So a few very, very big high rollers can change the patent quite significantly.



Yes. I see. And then just the last question on Vogel Sandd. I mean, you said you saw significant potential in the long term Is that because you see that you can do quite good revenue with only a land based on this casino? Or is that also including an online potential long term?



Yes. I mean, I think for sports betting, longer term, I think online will be much, much larger than retail for every operators. I mean, the interesting thing here is that there are only 2 casinos in the whole state of Connecticut. So I don't know how the legislation will pan out, but I mean there is an opportunity that it will only be 2 licenses. And then they have a fantastic opportunity, of course.



Okay. Got it. Thanks a lot.



Thank you.



And we have a follow-up question from Christian Hillman, SEB. Please go ahead.



Hi. Just a follow-up recap on Pennsylvania, which is going online here over the next couple of weeks or months. Which partners do you have contracts with currently that will or most likely will operate in the Pennsylvania? Because DraftKings isn't one of them, right?



No. Currently, we have 3 partners that have either operate in retail already or have signed a market access deal. And that is Rush Street Interactive, it's Parks and it's Kindred.



Right. Okay, great. Thanks.



Thank you.



As there are no further questions, I hand back to the speakers.



Okay. Thank you for your questions and for listening in. We look forward to updating



This now concludes our conference call. Thank you all for attending. You may now disconnect your lines.