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Kambi Group

Q4 2018



Prepared Remarks



Ladies and gentlemen, welcome to the Kambi Group Q4 Report 2018. Today, I'm pleased to present Chris Lenelein, CEO and David Kenyon, CFO. 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. I will now hand you over to Christian Leland. Please go ahead.



Good morning, and welcome to Cambys' 4th quarter results presentation. I am Christian Neillen, Chief Executive, and joining me is our CFO, David Kenyon. Please turn to Slide 2. In a moment, I will give you a brief overview of what was a successful Q4 for Cambium. After which, David will take you through the numbers.



I will then speak about the quarter in a little bit more depth, including some detail on our preparations for what has been a busy period for our retail organization. But first, on Slide 3, let me give you a brief introduction to Kemppi. Kembi is a 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 approximately 700 highly skilled staff, forms the foundation of our service.



The Cambly Sportsbook consists of multiple elements from front end user interface and open APIs through to order compiling, customer intelligence, risk management and a host of managed services, enabling our customers to offer their players the leading sportsbook experience on the market. On to Slide 4. Canvys' business is built around a revenue share model, with our growth dependent on our operators' 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, KNBI continuously invests in product, people and technology to maintain market leadership.



We operate an experienced in house trading and risk management team to optimize operator trading margin. And our business is underpinned by our corporate privity and integrity. We are publicly listed and have successfully obtained all the licenses we have applied for. We power more than 20 operators across 6 continents, including some of the most recognizable brands and successful brands in the industry. Let's look at the quarterly highlights on Slide 5.



The 4th quarter produced record results. We posted revenues of EUR 21,700,000, a 14% year on year increase. Operator turnover was up 42% to an all time high. Operator trading margin was again above our long term expected average at 8.5%. The quarter brought to an end Kianvi's best year to date.



Revenues for the full year 2018 was EUR 76,200,000, a 23% increase on 2017. Operating profit for the year was €12,700,000 a 65% increase, illustrating the momentum we have in the business. We launched 3 on properties post books in Q4, 1 with DraftKings in Atlantic City in New Jersey and 2 with Rush Street in Pittsburgh and Philadelphia as we made our debut in Pennsylvania. Yes, as we did in New Jersey, Canviez quickly gained a market leading position in Pennsylvania. Canby added a new another customer during Q4 in Greenwood Gaming and Entertainment, our 8th customer signing of 2018.



Greenwood Gaming owns Parks Casino, the largest gaming complex in Pennsylvania, as well as off track betting facilities in the state. In January, we went live with Greenwood Gaming in Parks Casino and the South Philadelphia Turf Club in the space of 8 days. Meanwhile, we also received 2 further licenses in the U. S. For Mississippi and Pennsylvania, adding to our New Jersey and West Virginia licenses.



I will now hand over to David Kenyon, who will talk you through the financial highlights, turning to Slide 6.



Thank you, Christian.



Good morning, everyone.



In Q4, we had revenue of €21,700,000 This was driven by the strong level of operator turnover from both existing and new customers and an operator trading margin of 8.5%. The full year revenue was 23% higher than last year at \$76,200,000 Operating costs for the quarter were 17,500,000 dollars giving an operating profit of \$4,200,000 at 19%. For the full year, operating costs were 63,500,000 dollars and operating profit was \$12,700,000 at 17%. This represents an increase of 65% on last year. Our cash flow for the quarter, excluding working capital movements, was \$2,800,000 \$8,600,000 for the full year.



The net cash position at the end of December was \$31,100,000



So let's now 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 Q4, we've seen turnover placed with our operators up by 42% on Q4 last year, including underlying growth from our existing operators and from new operators in the U. S. In particular. The margin represents the combined trading margin made by the operators. In Q4, this was 8.5%.



It's in the nature of the business for the operator trading margin to fluctuate between quarters depending on the results of certain sporting But we guide that the expected long term average is 6.5% to 8%. This quarter was boosted by favorable results in some of the major European Football Cup competitions such as the Champions League and Europa League. We can see the conversion from operator turnover growth to our revenue growth on Slide 8. Operator turnover was up by 42% compared to Q4 2017. The operator trading margin multiplied by this turnover generates the operator's gross gaming revenue or GGR.



The operator trading margin of 8.5%, although high, was well behind the exceptionally high 9.7% in Q4 last year. Overall, this led to an operator GGR increase of 25 percent year on year. Canby's commission is based on a percentage for the operator's net gaming revenue, which is after the deduction of gaming tax and certain marketing incentives. I would note that this tax impact is likely to increase in future quarters as the part of our business coming from regulated markets continues to rise, for example, in Sweden and the U. S.



In the last 12 months, we've extended contracts with many of our largest operators for the long term. They all grew significantly since their original contract signing and the terms of the renewals generally reflect this growth. In aggregate, this has had an impact on our revenue conversion and this, along with the fixed part of our revenues and certain volume related commission tiers, is shown in the other column of the graph. The net effect of all these factors is that revenue for Q4 of 2018 is up by 14% on Q4 last year to 21,700,000 dollars Let's turn to the full income statement on Slide 9. Operating expenses for the Q4 were \$17,500,000 This quarter, we include a share of the loss from operations totaling 75,000 in relation to our investment in Virtus Sports.



We also continue to invest in the licensing and marketing of our commercial operations in the U. S. Looking forward, we anticipate growth in operating expenditure of 5% to 7% for each of the 1st two quarters of the year. We currently expect the cost growth to increase at a lower rate for the remainder of 2019, although we may choose to invest more to capitalize on new market opportunities such as more new states opening up. Operating profit was \$4,200,000 for Q4 and \$12,700,000 for the full year compared to \$7,700,000 last year.



Profit after tax was \$3,300,000 for the quarter and \$9,800,000 for the full year compared to \$5,900,000 last year. Now let's look at the cash flow on Slide 10. Set out on this slide are the major components impacting our cash position during the quarter. Our opening cash balance was €38,200,000 Working capital decreased in the quarter by 2,600,000 dollars reflecting an increase in trade debtors as our revenues grow as well as certain other timing differences. Capitalized development costs in the quarter were \$3,100,000 whilst the amortization charge on previously capitalized costs was 1,800,000 euros The net cash inflow for the quarter was €100,000 and our closing cash balance €38,400,000 Over the course of the full year, our cash position increased by 4,000,000



euros So now let me pass



you back to Christian, turning to Slide 11.



Thanks, David. The Volvo, we have provided a retail product to a number of our customers for many years. By opening up our U. S. Market as well as our Sino 8 gs in Sweden means we are now providing retail at a much larger scale than we have ever been accustomed to.



To meet this increased demand, we launched an initiative to ensure we would not only deliver the highest quality retail product, but we would do so with great speed and efficiency, ensuring our customers could launch their sportsbook to their timetable and with a product their players would love. This preparation included the strengthening of our hardware supply chain with 3rd party providers the localization of a product for specific markets, the deployment of Cambria retail expertise and the training of customer staff in back office functionality and debt acceptance procedures. Thanks to the hard work of all involved. In the space of 9 weeks, which stretched into Q1 2019, Camber launched 5 on property sportsbooks in the U. S.



And across 2,000 retail stores in Sweden with ATG. This has demonstrated, without a doubt, our ability to execute multiple retail sportsbook launches to tight time frame And to do so, we have a market leading product, which I will talk about on the next slide. Turning to Slide 12. Kabi is focused on ensuring The increased focus on our retail channel has enabled the Canvri Retail solution to stand out for a number of reasons. The self-service betting terminal or kiosks, as they're called in U.



S, have quickly become an important channel for American players to place their bets. Such is the popularity of our kiosks, our customers have had to order greater numbers just to meet the increased demand. We are fast approaching 100 kiosks in operation across our 5 U. S. Retail locations.



Cambie remains one of the few to offer kiosks in the U. S, and we are the only supplier that do so in Pennsylvania. Considering the fact that more than half of our U. S. Retail beds are placed via lease terminals, we believe a high quality kiosk is a must for any operator in the market.



Next is our fully customizable digital signage, which enables operators to meet the local player needs. Just like our main sportsbook product, operators have full control over signage, for instance, over how it looks and what markets are displayed. Our signage provides both pre match and live odds with in place course currently being rolled out. Meanwhile, our Bring Your Own Device technology has been launched by our customers in Pennsylvania. Both Parks Casino and Rush Street have leveraged our technology so players can view odds and build their bet slips from anywhere in the state, which then creates QR codes for quick and easy bet placement at the sportsbook property.



We are seeing usage rise week on week as players prefer to view odds before visiting the cashier. We have also seen queuing times at Sportsbook fall due to a quick bet placement process. This product is unique to the market, and we believe it will prove popular in other markets, particularly those that are reluctant to regulate online betting. When considering other factors such as depth of offer, unique in play markets, speed of settlement and intuitive UX, we believe Cambi has the industry leading retail product and one which have proven can be delivered in a matter of weeks. Moving to Slide 13.



As mentioned, in Q4, we signed Greenwood Gaming and Entertainment, the highest grossing casino in Pennsylvania. Greenwood Gaming selected Cambi in part for our strong track record in integrity and corporate probity. On January 8, Cambysporchburg was launched at Parks Casino, and within 7 days, aporchburg was unveiled at the operator's South Philadelphia Turf Club, which is situated in the heart of city's professional sports complex. In the coming weeks, we will also launch together at the Valley Forge Turf Club, also in Pennsylvania. As with all Kambi customers in Pennsylvania, an online sportsbook will be launched as soon as the state regulator gives the regulatory go ahead.



On to Slide 14. In parallel to our U. S. Efforts, Q4 saw Cambly prepare for the launch of a newly reregulated Swedish gaming market. The market went live on January 1, at which point we were able to launch in 2,000 retail stores with ATG, the country's most popular betting brand.



To launch across many shops simultaneously is, again, testament to the work and preparations we put into our retail delivery and it's another example of our expertise in this area. At the same time, Kambi also helped support 6 of our customers with their licensing and launch, with these operators accepting bets under the new framework just minutes after midnight. Now to Slide 15. Earlier this month, Cambys signed its 1st customer of the year, Rhinoceros Operations Limited. The new owners of a popular German sports betting brand, MyBet.



MyBet was withdrawn from the German market in the fall of 2018 due to insolvency of its previous owners. However, under the new management and with Cambus Porchbuk, we believe there is a potential for Mybet to recover its prominent online market position. We expect to relaunch the Mybet brand in H1 2019, while the deal also includes a provision to launch Borsbetting with other brands under the same ownership. While the U. S.



Is a key focus area for Kambi, these deals should remain shows will remain open and to attractive growth opportunities in Europe and further afield. Now to Slide 16. In summary, Q4 ended what was a fantastic year for Kempe. The operational highlight was us providing beyond proving beyond doubt our retail capability, Launching 5 U. S.



Sportsbooks and across 2,000 retail stores in the space of 9 weeks is a great achievement. We also signed Parks Casino, the highest grossing casino in Pennsylvania. The year was our strongest yet and ended with our revenues being up 23% year on year and operating profit up 65%, illustrating our consistent performance and continuing momentum. Having demonstrated our online and retail capability, Canby is well positioned to replicate our earliest U. S.



Success in additional states and set the standard globally. We have entered 2019 in great shape, and I'm confident for the year ahead. Now I will pass over to the operator for questions.

Q&A



Thank Our first question comes from the line of Christian Hellman from BBA. Please go ahead.



Hi, thank you. The first question, I missed the cost guidance. Can you just repeat that, please?



Yes. I said it's we're looking at probably 5% to 7% quarter on quarter increase for the 1st 2 quarters, and then it's likely to decrease for



the rest of the year on



a quarter on quarter basis.



Thank you, Colin. Right. Thank you.



And a little bit more color on that. I mean, it's really driven by 2 things. It's headcount, but it's also the new office we're looking at in Philadelphia at the end of Q1. So obviously, in Q2 onwards, we'll see an impact from that.



Okay, great. And just on retail, which you're spending quite a lot of time on doing presentation. Could you elaborate a bit on well, first off, how much of your revenues are coming from retail at the moment? Or what you see going forward in terms of retail on a group level? And also a bit on the economics and the margin on the retail product versus your online product, how we should see that?



Yes. So yes, still revenues from retail is quite small. How it will look in the future, it's a little bit tricky to say because I think the most important part of retail is being able to gain customers who already have a retail presence and will be strong in online as well, such as ATG, for instance. But more importantly, in the U. S, you will probably see a rollout of retail well ahead of online in many states.



And therefore, the significance of having a strong retail product will be very, very important. However, long term, I still believe that the online is the main revenue stream for us.



Right. So it's sort of like a product that you need to have to sort of, I don't know, secure clients so they don't go with anyone else. So you're sort of already have a good relationship with them when the online domain sort of opens up? Is that how you should sort of see retail subscription?



Yes, long term, absolutely. Having said that, I believe you will see, especially until online is opening up, and you saw that in New York as well, that retail are bringing high GTR as long as there is not competition from online.



But in terms of economics, sort of I guess the operator sort of pays for the kiosks and everything? Or how is the sort



of That's correct. The economics is very similar for us as to the online business. The operator are responsible for the kiosks and the hardware servicing and also for any staffing in the casinos.



Right. And there is some third party provider of this. This. You're not sort



of assembling them yourself, I think. We are not, no.



And then a bit on the U. S. During the Q3 report or shortly after there, you mentioned in and into, I believe it was, that revenues from the U. S. Was maybe 5% or perhaps a tad below, but in that vicinity in Q3.



And now we have a full quarter of sort of sports betting action in New Jersey. Could you elaborate a bit on how big the U. S. Was for you guys in Q4, like ballpark?



We haven't given that figure. But there is sufficient reports, both from New York City and Pennsylvania. So I think you could figure out decent accurately where we are at it. But we have chosen not to give any figures at this point.



Okay. And just one final question on Mybeth there. It was a strong brand previously in Germany. But is it possible to elaborate a bit more on that? Where it was sort of I don't know, was it top 5 or top 10?



Or just to give some more color on how big it could become if everything works out for the new sort of relaunch of it?



Historically, it's definitely been a top 5 brand in the German market. So there is potential. But on the other hand, I mean, it didn't end at the top 5 brands. So we will see, but And



this is well funded now, backed by a lot of marketing money.



I hope so. We'll see.



Yes. Okay. Okay, great. Thanks. That was it for me.



Thank you.



Thank you. Our next question comes from the line of Jarmar Alberg from Kepler Cheuvreux. Please go ahead.





Thank you. I just wonder if you could comment on U. S, if you have any like strategy for which states you are targeting? Or are you more or less following your customers? Or are there any states that you prefer, I mean, the larger ones or months where you see less competition?



Or do you have any strategy that you can comment



on? Yes. I think we are targeting every single state in the United States, I would say. I think, obviously, you have more focus on the ones that you believe is closer to regulation. But also, of course, you are always looking at the larger states such as California, for instance.



So I would say, yes, But we're almost at what we definitely believe have a chance to have in 2019 has a very strong focus at the moment. Okay. Okay. I see.



And then I was wondering if you could comment anything on Sweden, if you have seen any I mean, the market is now regulated, if you have seen any change in the behavior or any change in



the volumes from your clients in Sweden?



It's very hard to have a good view on this at the moment. It's I mean, last January, the margins was extremely high. So it's really tough to compare because it's not really at the surface. But so far, I think what we guess at least is that it's a very positive development so far.



Our next question comes from the line of Bo Bjornsson from ABG. Please go ahead.



First of all, I just want to state that these questions



are from Erik Mobber, who's unfortunately available at the moment. First of all, it appears like the growth of the underlying business is accelerating. Could you give us any sort of indication on how much your so called old contracts contributed to turnover growth and how much new customers contributed?



Hi. We can't give an exact split on that. That's not something we disclose at this stage, but it's fair to say that there's growth elements from both the U. S. And also the underlying growth from the existing operator base.



So we haven't given a split, but growth in both areas, which we're very pleased about.



Okay. And regarding EBIT, we're really starting to see the operating leverage coming through. What sort of contribution on EBIT did Colombia have in Q4?



Unfortunately, I mean, that's pretty much driven by one client in particular. So we don't we can't really comment on what one country can contribute. Again, we're pleased. As we've mentioned before, I think that customer has developed really well, Corridor and Pizzeria. So yes, very pleased with the numbers, but we can't disclose exactly what that is.



Okay. But even as usual, we'd most say that most of the revenues do of course come down to EBIT. So it's not much of a cost base in that country per se.



Okay. And looking at the New Jersey market in 2019, how do you think that the market dynamics will change with more operators up and running?



I think probably I've seen the majority of operators that will be operating during 2019. There will be a few more entrants, But I still think some of the big ones will probably compete better with on the product side later in the year. But having said that, I still think that the market will grow from where we are, and I think our customers have positioned themselves very, very well. So for us, I think it's looking very positive.



Great. And then my last question is in terms of the Pennsylvania market. When relating that to the New Jersey market, what type of market size is fair to assume?



Yes. Pennsylvania is clearly a larger state than New York City. So long term, I definitely think it's a bigger market when it comes to GTR. However, you have to think the tax rate in Pennsylvania is significantly higher. So both for us and the operators, it that will have a big effect on what is actually coming down to revenues.



Okay, great. Thank you. That's all for me.



Thank you.



Thank you. Our next question is a follow-up from Christian Helmer from



Nordea. Yes, just a question on the sportsbook margins in the U. S. Or comparing it to the group. Could you elaborate a bit on that?



I believe that the margins in the U. S. Are lower, but if you could confirm that perhaps.



Yes. It's too short time period to give a clear answer on this. But I have said before and I still believe that the types of sports and the pet offers that are mainly betted on in the U. S, we have lower theoretical margin also. So typically, we believe that the margin should be lower in the U.



S. Than in Europe. But it's very early days, and a few results have a very big impact still.



But that was the case in Q4, at least?



Yes.





Yes. Okay. So adjusting for that, your sort of is your previous portion of margin, which was sort of comparable to what you did in Q4 2017 was higher than 8.5



percent. Yes. The European sportsbook margin was higher than 8.5



Yes. Yes. Okay. And then just sort of a question on a comment that you stated in the CEO word in the beginning of the report that you're confident that Canvig can remain on an upward trajectory throughout 2019. What's sort of the basis for that?



Is that more U. S. States to open up? Or what are the factors that sort of make you think that?



I think we have certainly much stronger portfolio of customers going into New Year, some with high potential to grow, especially with U. S. Opening up, of course, but also bringing customers like ATG. And the second part of it is that, I mean, there is more and more market opportunities opening up around the world. I mean, you see more potential regulations happening in U.



S, in Latin America and even in Europe, you see things happening now.



Yes. Okay. Fair enough. And then just a final one on Pennsylvania. What's sort of for Pennsylvania to open up online, what's sort of the base case now?



It's somewhere in Q2, I guess, but what should we expect?



Yes. I can't answer. I don't really know. I mean, it is a regulatory process. If you look in Europe, I mean, your guess is as good as mine.



No, it's



not. But is Q2 sort of a base case or Yes, I guess.



Yes, I think it's possible, at least. I think you have the one date that will be like very important in the U. S. Is when the American football season starts. Hopefully, it happens before that, but I think that is probably where the date that most regulators are aiming at.



Early September. Yes.



Okay. Thank you very much.





Thank you.