

October 26, 2018

Kambi Group

Q3 2018



Prepared Remarks



Ladies and gentlemen, welcome to the Campe Group Q3 Report 2018. Today, I am pleased to present Christian Yulin, CEO and David Kenyon, CFO. For the first part of the call, all participants will be in listen only mode and afterwards, there will be a question and answer session. Speakers, please begin your meeting.



Good morning and welcome to Canvys' 3rd quarter results presentation. I am Christian Neuland, 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 very successful Q3 for Cambium, After which, David will take you through the numbers, and then I will speak about the quarter in a little bit more depth, including our continued progress in the U. S.



But first on Slide 3, let me give you a brief introduction to Cambria. Cambi is a premium turnkey sports betting service offered on multiple channels such as web, mobile and retail terminals. Our service is managed from an in house developed platform, which has been continuously developed over the last decade. The platform, together with our 700 highly skilled staff, forms the foundation of our service. The Canvas Porchbook consists of multiple elements from front end user interface through to OS compiling, customer intelligence, risk management and customer empowerment capabilities, enabling our customers to offer their players the leading sportsbook experience on the market.



On to Slide 4. Canvys business is built around the 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, the operator that the operator can be continuously invest in product, people and technology to maintain market leadership. We also operate an experienced in house trading and risk management team to optimize operator trading margin.



While our business is underpinned by our corporate probability and integrity, we are publicly listed and have successfully obtained all licenses applied for. We now power 22 operators, including some of the most recognizable and successful brands in the industry. Let's look at the quarterly highlights on Slide 5. The quarter produced good results for Cambium. We posted record revenues of €20,500,000 a 39% year on year increase.



Operator turnover was up 31% to an all time high, making Q3 2018 the first Q3 where turnover increased sequentially during the year with a major summer football tournament, which has a greater impact on Q2. Our operated trading margin was again above our long term expected average at 8.6%. The inherent scalability of our business model can be seen in our operating margin of 20%. Despite the fact revenues increased significantly, much of our cost base is fixed, and therefore, our operating margin was higher than in previous quarters this year. We added 3 new customers during the quarter.



In the Q2 report, we detailed the July signings of Latvia, Lotto and ATG. Since then, we have also added global gaming, further strengthening the Kambi network. We have now signed 7 customers in 2018, and the interest in Cambi continues to grow. In August, Cambi created history when processing the first legal online bet in the U. S.



Post passport. The bet was struck in New Jersey with our partner DraftKings, and we have since launched with Rush Street Interactive SugarHouse Brand and 888 Sport. We are powering 3 of our 8 online sportsbook in the state, giving us a dominant position in the market. I will now hand over to David Kernian, who will talk you through the financial highlights. Turning to Slide 6.



Thank you, Christian. Good morning, everyone. In Q3, we had revenue of €20,500,000 This was driven by the strong level of operator turnover from both existing and new customers and an operator trading margin of 8.6%. Operating costs were \$16,300,000 giving an operating profit for the quarter of 4,200,000 dollars Our cash flow for the quarter, excluding working capital movements, was \$3,300,000 and our net cash position at the end of September, \$30,800,000 So 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 Q3, we've seen turnover placed with our operators significantly up on Q3 last year. The level of operator turnover saw contributions from the latter stages of the Football World Cup, underlying growth from our existing operators and from new operators both in the U.



S. And the rest of the world. It's very positive that we have bucked the usual trend we see in the Q3 after a major football tournament circled here in 2014 2016, where we have previously seen a decrease in operator turnover in the quarter. This year, we would have achieved growth from Q2 to Q3 even without the launch in the U. S.



The margin represents the combined trading margin made by the operators. In Q3, this margin was 8.6%. It's in the nature of the business for the operator trading margin to fluctuate between quarters depending on the results of sporting events, but we guide that the expected long term average is 6.5% to 8%. This quarter was boosted by favorable results in the latter stages of the World Cup and in some of the major European football leagues. We can see the conversion from operator turnover growth to our revenue growth on Slide 8.



Operator turnover was up by 31% compared to Q3 2017. The operator trading margin multiplied by the turnover generates the operator's gross gaming revenue or GGR. The operator's trailing margin of 8.6% was well ahead of Q3 last year, leading to an overall operator GGR increase of 51% year on year. Canby's commission is based on a percentage of the operator's net gaming revenue. In the last 12 months, we've extended contracts with many of our largest operators for the long term.



They all grew significantly since our original contract signing and the terms of the renewals generally reflect this growth. In aggregate, this has had an impact on our revenue conversion. 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 Q3 2018 is up by 39% on Q3 last year to 20,500,000 euros Let's turn to the full income statement on Slide 9. Operating expenses for the 3rd quarter were 16,300,000 dollars This demonstrates the scalability in our business model while the large majority of our cost base is fixed.



The costs increased in line with our guidance from last quarter despite the significant increase in revenues. This led to a large increase in operating profit from \$1,100,000 last Q3 to \$4,200,000 this quarter. Profit after tax is \$3,300,000 compared to \$800,000 last year. We can see more information about our cost base on Slide 10. Here we see an illustration of the areas where we invest our money.



The large majority of our expenditure shown as the top part of the illustration is on the day to day costs of continuing to develop and run a market leading sports book, which benefits all of the operators we work with. In addition to this, there are specific initiatives. For example, we work continually on the existing offering for all of our operators in areas such as increasing operator differentiation capabilities and improving the player experience of our products as well as increasing automation and sharpening the risk management capabilities, which benefit the accuracy and scalability of our operations. Another important area for us is developing the channels in which we can offer our product, specifically the ability to offer our market leading products on retail terminals. This is a key part of maximizing our addressable market.



In terms of market expansion, we work constantly to ensure our product is ready to serve new markets as commercial opportunities and regulations develop. This comprises the technical development of the product and the costs of obtaining and maintaining licenses and certifications as well as making sure that the product is tailored to the relevant market. And of course, we spend time and money on integrating new customers from a technical and operational perspective. We see very exciting opportunities ahead and we will continue to invest to capitalize upon them. For Q4, we anticipate growth in operating expenditure of 5% to 7%.



Now let's look at our cash flow on Slide 11. Set out on this slide are the major components which impacted our cash position during the quarter. Our opening cash balance was €35,400,000 Working capital decreased in the quarter by €600,000 reflecting an increase in trade debtors as our revenues grow. Capitalized development costs in the quarter were \$2,200,000 whilst the amortization charge on previously capitalized costs was \$2,100,000 Overall, the net cash inflow for the quarter was 2,800,000 and our closing cash balance €38,200,000 So now let me pass you back to Christian Turning to Slide 12.



Thanks, David. In Q3, Canvie made its debut on the U. S. Market. Following the repeal of PASPA, New Jersey was one of the first states to launch a regulated framework and the first to launch online.



With our partner DraftKings, Cambi was the first to process a legal online bet in the U. S. Outside of Nevada, a seismic moment in the sports betting industry. In fact, Cambi was the first to launch online in New Jersey is a testament to our ability to quickly comply with local regulations. Due to our commitment to integrity and corporate property as well as our history of speedy integrations and delivery, Cambria has become the trusted choice for operators across the world.



It's worth highlighting that by mid September, we were live with 3 online operators in New Jersey, all with differentiated products. Meanwhile, some of our competitors have yet to launch a big digital product for their partners. According to recent figures published by the New York State regulator, Cambys' free customers had a combined online market share of more than 70% in September. KraftKings is currently the clear market leader, while Rush Street Interactive, which launched Sportsbook with its casino SugarHouse brand, is the 3rd largest in terms of revenues. SugarHouse launched the Cambys Sportsbook after MGM launched its Porchbook, yet in September, amassed 5x revenue and more than double that of MGM and Caesars combined.



Turning to Slide 13. Although much of attention is on the U. S. Market, we continue to grow in Europe. And in Q3, we signed 3 new customers in Europe.



We detailed the signings of ETG and Latvian Lotto in the Q2 report, both of which we signed in July. In August, we added Global Gaming, a rapidly growing gaming operator, which is listed on the NASDAQ Stockholm First North. Global Gaming has enjoyed recent success with its Nynia Casino brand. Moving on to Slide 14. Shortly after the close of Q3, we signed a commercial partnership with WhiteHat Gaming, a provider of platform, gaming and managing services.



The agreement adds a further platform option for prospective Cambic customers. With our agnostic platform approach, empowering operators to choose a solution that is best meeting their needs. The agreement also enabled customers to offer a Cambrew Sportsbook where appropriate and strategically viable. On to Slide 15. Following the early success of New Jersey, and launched sports betting.



Kambi recently obtained a permit in West Virginia, and we are in advanced stages of licensing process in Pennsylvania and Mississippi. In New York, the regulatory process is on hold until after the mid term election next month. We expect the market to go live in 2019, but what form regulation may take is still unclear. There are a few possible outcomes with scenario, CAMB is well positioned to take a strong position in the market. Due to the nature of state by state regulatory process in the U.



S, the market is unlikely to reach its full potential for a number of years. That said, it was interesting to see the launch of sports betting on a property of a tribal casino in New Mexico before the launch of a regulatory framework in the States. The TriMas Casino was able to launch sports betting due to the compact it had in place with the state in which sports betting is permissible. This potentially opens up opportunities for other tribes with similar compact agreements in place in other states. In a similar vein, the advanced regulatory situation in Washington, D.



C, where betting could be live in H1 2018 also took us a little bit by surprise due to the speed in which it has progressed. So while some states may move slowly, it will be a case that others expedite the regulation of sports betting. Now to Slide 16. Earlier this month, we flew a team out to Las Vegas for the annual G2E show, which is one of the largest gaming exhibitions in the world. Following the full repeal of DASPA this year, this year's exhibition had a strong emphasis on sports betting.



Canvie invested in a sizable presence at C3 as part of a larger branding initiative to strengthen our brand awareness and reputation within the markets. On Stand, we were able to present our online and land based products to prospective customers, current customers, regulators and media. Meanwhile, office land, a large number of productive meetings with with feedback very positive. It was also pleasing to see that traction the Kambi brand has already gained in the U. S.



With many senior executives recognizing Cambie for its quality and delivery in New Jersey. I was confident in our chances of success in the U. S. Prior to GTE. However, following the show, I'm even more convinced Kabi is well positioned to become a number one choice for operators looking for a high quality and trusted sports betting partner.



Now on to Slide 17. So to recap, the Q3 was the best in Canvys' history, recording strong turnover growth and delivering our highest ever revenues. We also expanded into the U. S. Where we took the 1st legal online wager post passport.



And the future looks bright with more U. S. States to regulate over the next few years and interesting development in other markets globally. Canvie is a market leader in the countries and states it currently operates in, and I believe we are in a very good position to replicate that success as new markets are opening up. Now I will pass over to the operator for questions.

Q&A



Thank you. And first question is from Erik Moback from ABG. Please go ahead. Your line is open.



Hi, guys. Good morning and congratulations on a strong report. You mentioned that roughly 5% of revenues stem from the U. S. But if we look at the operator turnover index, how much would you say that U.



S. Constituted?



What is mentioned is that we would have been growing the operator index quarter by quarter even without the U. S. Actually, I haven't mentioned any figure of 5%. It is a good assumption, though, that it's roughly in that area.



Would that be similar levels at the operating turnover index? Or



That was what I was referring to in the other call.



Okay.



If we look at Q4, how much would be fair to assume that new customers will contribute?



I think looking at Q3, we were only operating from the 6th August, I think. So I mean, you have one more full month and a little bit more. Also, basketball hadn't started in Q3. So I think you should expect positive growth from the U. S.



Market for us.



Okay. And then if we look at the monthly data that is published by New Jersey regarding gross generated revenue, How much of this came from bets that's been made in conjunction with games that take place later on during the year?



They didn't give a number for that in September. In August, I think it was COVID GGR in August, I think it was more than 50% that was not settled. However, I mean, if you're looking at September, the large part of that August turnover was settled in September. So I think you're getting to a more figure that is more in line with the actual figure from September and going on forward.



Okay. That makes sense. And also in regards to the Sun International and Corador, you're up and running online, but what's the status regarding the rollout for the retail product?





So in Colombia, it is actually only an online regulation. So that is what we are planning to do in Colombia for the foreseeable future. Having said that, Corridor is working very much with the customers coming into the retail stores helping them out on online. With some I think something on the retail is very possible to happen during 2019.



Would that be H1 twenty nineteen or during the second half, do you think?



I don't want to comment on that at the moment.



Okay. That's all for me. Thank you very much guys.



Thank you.



And next question is from the line of Christian Helfmann from Nordea. Please go ahead. Christian, your line is open.



Hi, thanks. Just a couple of questions on the customers that you recently signed but haven't yet launched. 8 gs, for example, I'm guessing that you're planning to go live with them 1st Jan or what's the time frame there?



I think that's a very likely assumption.



Yes. It



will certainly not be earlier at least.



No, no, for sure. That was perhaps an obvious question. But the other one, the global gaming and consumer, what are the sort of the Consumer you signed a while ago after you haven't launched that one yet. What sort of are the time frames for Global Gaming and Consumer to go live?



Global Gaming, I think, is also very likely to go live with the Swedish regulation opening up. Kasuma, I can't give you a time line for. Okay. And



what sort of what happened with Kasuma because they're coming before the summer?



Yes, I guess that's more a question to Kasumu than us actually.



Fair enough. And then on WhiteHat, could you elaborate a bit on their sort of footprint and Where do you think they will help you to grow and find new clients?



So first of all, I think WhiteHat, they have a very different operating model to most other platforms we have been working with. They are more of a white labeling company. So they manage everything for our customers, everything actually from licensing to operating the business with call center, CRM, payments, fraud and so on. We have a few decently sized casino operators that I think are likely customers for us for near future. And then we will see from there.



And in terms of geographical markets, I think there's primarily dominant in Europe or do they have business in the U. S. Or where are their clients are located?



It's predominantly Europe at the moment, especially I think U. K. Is large for them.



Okay. All right. And then just a question on the cost guidance. You're guiding for 5% to 7% sequentially into Q4. Could you say anything on 2019?



I mean, with a lot of things happening in the U. S, and I'm guessing you're sort of thinking about opening an office there perhaps. And is it possible to say anything about 2019 in terms of costs?



We can't give specific guidance. We're not giving you a number at this stage. But yes, you can imagine that as we talked about, there are lots of opportunities in the U. S. So we will spend what we need to, to capitalize on them.



And yes, that could potentially include just putting an office and putting some stuff there to really capitalize on our opportunities.



Right. And balancing that in relation to sort of you getting some scale and leverage on in the business? Do you think you'll sort of perhaps go costs more than 7% quarter on quarter next year if you have taken up an office and that's what



Just to be clear, when we talk about



an office, we're not talking about it's not going to be a huge office for us. It's more of a kind of a place where we can have some sales representation, customer support and some trading expertise, but



we're not taking massive office here. So yes, as



I say, I'm not going to give a whole number for 2019, but yes, that will be a small contributor to any growth.



Okay. And just a final question on your sort of general pipeline. I mean, you're obviously very bullish after the GTV show in Vegas on long term opportunities in U. S. But could you give just sort of a general view of your sort of current client pipeline as you look at the European market and also perhaps into the U.



S. But where we see because you've previously said that it was super strong and then you signed ATG and a few others. Is it still looking very, very good? Is it still in the European market? Or are there any ones left?



Yes. I think it's looking good. Obviously, I would say that the focus is turning a little bit more towards U. S. At the moment of very good reasons.



Having said that, I mean, in last quarter, we actually signed 3 customers in Europe. So it's not like we are not continuing working on the European market. I'm still very bullish about the pipeline. However, you also have to remember, but now we're getting in more to a situation where we are starting looking in the states outside of New York City and then regulatory situation will have an impact on the time lines. So it's a little bit tricky to say the pace of it.



Something you're asked really. And this final question just on Sweden with the tax being implemented here in from January, can you give some sort of guidance on your exposure? I mean, Tilray is your largest customer, but can you give some sort of guidance on sort of how this will impact you in Q1?



Yes. I mean, all I'd probably say at this stage is that if you look at the waterfall, I think that might have a slight shape to it as we move into 2019. I think you'll probably see a slightly kind of larger impact on the taxes and marketing deductibles column in that revenue conversion. So we will get to sort of give it when the market opens up, we can be a bit more clear exactly what the impact is. But I'd say just anticipate bigger impact from tax moving into 2019.



Yes, I do. I do. I'm just sort of



I'm giving you an update today.



So I understand if this is Sweden, if you sort of take the revenues from Tinder and all the other sort of operators that are present in Sweden, if that sort of adds up to 10% or 20% of your group revenues or yes, where we are, that ballpark?



I mean, you obviously can tell from Kindred that we still say that's more than 50% of our revenue. So that gives you a decent rule of thumb. I can give you an exact number for confidentiality reasons.



Okay. Okay. I'll have to do some guessing work, I guess.



Yes, please.



Thank you. That's it for me.



Thank you.



Next question is from Victor Hogberg from Pareto Securities. Please go ahead. Your line is open.



Hi, guys. I have a follow-up question on the OpEx growth guidance into Q4. I won't hold you to any numbers, but if I interview with Christian a couple of weeks ago where he said that this increase, sequential increase of 5% would persist for a foreseeable future. How would you define the foreseeable future? Is that 2018 2019, not 2020?



Or how should we sit up? Looking 1 year ahead, if it would increase 5% to 7%, it will be 20% to 30% OpEx increase into Q3 2019. Would that be a fair assumption somewhere between or?



I think, I mean, the rationale and reason why we have started to look at the higher cost increase is obviously U. S. And I wish I knew better than I do about how quickly different states will legislate. But I mean, it's a big unknown for us as well. What we can be sure of is that if the opportunities isn't there from a revenue point of view, I mean, there is no point for us to grow revenues much faster either.



Also, Roger, when I presented earlier, I talked about that we were investing in different I highlighted different parts of business. We're investing in it. It was improving the product. It was developing new channels. It was developing new markets.



And it was integrating new customers. You don't all of them have they're all revenue driving. So these are the areas we're spending money. It's just to capitalize on these opportunities.



Yes, sure, sure. What would you say in general from what you know now, when you go into a new state or when you would enter a new state in the U. S, the lag for like a cost cover?



I mean, I'm highly surprised how fast it went in New Jersey and if that's how it would be in other markets, I think it would be a very little lag. What is against that is if you get states that only regulates for retail, then we will get a much slower pace of that, of course. But if online is regulating directly, you will see very instant revenue growth as well.



Okay. And regarding new states, I know it's not set it's not clear yet the fiscal presence that would be required for entering a given state. But what would you say? Is it like signing a new client for that €250,000,000 up to €500,000 for a new client or a new state in the U. S.



Would that be a fair assumption?



No, I don't think you should assume that the client matches any cost because I mean if DraftKings or Rush Gate wants to go into a new state, the cost is already taken there. So it has more to do with state rather than an additional customer.



Okay, great. Okay, that's it for me. Thanks.



Thank



you. Next question is from Jarmar Alberg from Kepler Cheuvreux. Please go ahead. Your line is open.



Hi, thanks. Just want to check if you have any information about major asking for help us not very strong in New Jersey. Do you know if they have a lot of users from their existing database? Or is that you can describe in other states in U. S.



As well?



I think I don't have a full overview of our database, of course, but they have been very successful and the leading brand in most states where you can operate daily fantasy sports. So I would expect that we have a great customer base in most states we're going into.



Okay. And then just on the sports margin, would you see any difference long term when you get more U. S. Exposure towards the sports margin same in this market compared to other markets in the world?



I would say it's way too early to say. This year, we will what we have seen so far is very good margins. But I think the result in especially American Football has been very favorable as well. So it's too early to give a good answer on that question, I would say.



Okay. That's it from me.



Thank you.



And there are currently no further questions registered. So I'll hand the call back to the speakers. Please go ahead.



All right. Thank you for the questions and for listening in. We're looking forward to update you on the 13th February when we publish the Q4 results of 2018. Thank you.



This now concludes the conference call. Thank you all for attending. You may now disconnect.