

April 25, 2018

Kambi Group

Q1 2018



Prepared Remarks

Good morning, and welcome to Kambi's First 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 the quarter, after which David will take you through the numbers. I will then speak about the quarter in a little bit more depth and, as usual, the Canby initiative, which this quarter focuses on the summer's World Cup.

Following the presentation, we will open up the question. But first, on Slide 3, let me give you a brief introduction to Kambi. Kambi 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 620 highly skilled staff, forms the foundation of our service.

The Canby's Forschwerk is formed of multiple elements, from front end user interface through to order compiling, customer intelligence, risk management and customer empowerment capabilities. We currently offer our service to 17 operators spread across 6 continents, making us a truly global sportsworld provider. Let's look at the quarterly highlights on Slide 4. The year has started well for Kandi, with Q1 producing quarterly revenues of NOK 16,400,000, a 15% year on year increase. Operator trading margin for the quarter was 7.9%, a figure above our long term expected average.

We added a new customer, Kasumu. Kasumu is one of the fastest growing and most innovative gaming companies in Europe. Key to the deal was the flexibility of our platform and its ability to empower operators to innovate, and we are delighted to have Kasumu on board. After Q1, we signed our 17th customer in Standard Best Romania. The addition of Standard Best to the Kempe network is significant for a number of reasons, which we will discuss later in the presentation.

The signing makes it 10 consecutive quarters in which we have signed at least 1 new customer and shows the momentum the business continues to build. The quarter also saw us make a strategic investment in virtual sports, an early stage virtual sports supplier. Adding virtual sports food can be offering is something we have been considering for some time. And in virtual sports, I believe we have found the right product at the right size. I will now hand over to David Khemian, who will talk you through our financial highlights.

Turning to Slide 5.

Thank you, Christian. Good morning, everyone. In Q1, we had revenue of €16,400,000 This was driven by strong operating trading margin at 7.9%. Operating costs were \$14,400,000 giving an operating profit for the quarter of 2,000,000 Our cash flow for the quarter, excluding working capital movements, was £600,000 and our net cash position at the end of March was £28,900,000 So let's now look at the income in some more detail. Turning to Slide 6.

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 on Canby's sports betting service. In Q1, we've seen turnover placed with our operators slightly down on Q1 last year. The level of operator turnover was suppressed by the much stronger operator trading margin in Q1 this year due to the correlation between these two metrics.

There was also an impact on operator turnover from the particularly strong operator trading margin we saw in Q4 and the start of Q1. As there is typically a time lag between margins decreasing and operator turnover picking up. The margin represents the combined trading margin made by the operators. In Q1, this margin was 7.9%. It's in the nature of the business for the trading margin to fluctuate between quarters, depending on the results of sporting events.

But we guided the expected long term average for the operator trading margin of 6.5% to 7%. We can see the conversion from operator turnover growth to our revenue growth on Slide 7. Including FX impact, operator turnover fell by 3% compared to Q1 2017. The operator trading margin multiplied by the turnover generates the operator's gross gaming revenue. The operator trading margin of 7.9% was well ahead of Q1 last year, leading to an overall operator GGR increase of 25% year on year.



As part of our revenue model, we share certain costs with our operators. These can include player incentives such as free bets and betting duties. During the quarter, the Belgian court ruled that online license holders should not be subject to VAT, which will have a positive impact on our revenues going forward in the range of €100,000 to €200,000 per quarter. We also read yesterday of a new policy idea in Norway. For us, Norway represented less than 10% of our total operated turnover in Q1.



It is very early stages, but we will monitor the situation closely. Cambi's commission is based on the percentage of the operators' NGR. To provide growth, some of the customer contracts include tiers with lower commission rates on the higher levels of the Sport segment revenues. This, along with the fixed part of our revenues, is shown in the other column of the graph. The other column also includes the impact of the 888 contract extension signed in July last year.



This is the last quarter where we will see this year on year negative impact. The net effect of all these factors is that revenue for Q1 2018 is up by 15% on Q1 last year to CHF16.4 million. Let's turn to the full income statement on Slide 8. Operating expenses for the Q1 were C14.4 million dollars up by 3% from Q4. Operating expenses are forecast to increase in Q2 by 3% to 5% compared to Q1 as we continue to invest in the future to ensure we maintain our technical and market leadership.



Overall, in Q1, profit from operations is 2,000,000 dollars compared to \$1,400,000 last year and profit after tax is \$1,500,000 compared to \$1,100,000 last year. Now let's look at the cash flow on Slide 9. Set out on this slide are the major components which impacted our cash position during the quarter. Our opening cash balance on the 1st January was €34,300,000 Working capital increased in the quarter by €1,600,000 reflecting a decrease in debtors due to the particularly high level of trade debtors at the end of Q4. Capitalized development costs in the quarter were \$2,100,000 while the amortization charge on previously capitalized costs was \$2,000,000 We also invested \$600,000 in acquiring 25 percent of Virtus Sports, an early stage virtual sports company.



This offering will complement the Cambie Sportsbook in due course. The net cash inflow for the quarter was 2,200,000 and our closing cash balance was €36,300,000 So now let me pass it back to Christian, turning to Slide 10.



Thanks, David. As I touched on earlier, in Q1, we signed our 16th customer, Casuno. Kasuno is one of the most innovative gaming operators in the industry and will use Canby to bring its social, fun and entertaining experiences into the sports betting vertical. To do so, Kasumo will leverage our open APIs to build upon the campus portfolio, an ability which is unique to the market. Casumo is on track to launch a football focused product before midsummer's World Cup, which will target the large group of football fans who don't ordinarily bet.



Being able to house and power a brand such as Katumu alongside our more traditional sports betting brands, reflects the flexibility of the Cambrew platform and its ability to service operators of all types. Now on to Slide 11. Last week, we signed Stalibet Romania, one of the most recognizable sports betting brands in the Romanian market. Sandibeth holds the top 3 position on the Romanian high street, which with more than 300 shops. The rollout will begin in 2019.



Stenelberg also has an online person, which will move across to the Cambys Forteuf this year. All being well, the online launch should take place before the World Cup. This is a significant theme for Cambly for a number of reasons, primarily Sandeep at Romania's sizable retail business. It's the 3rd largest operator on the high street. This will give us the ability to showcase the strength of our Cambria retail product on a large scale and provide us with a good proof point moving forward.



In addition, standardwelt has a strong sports betting heritage. Sports is a core product. So the fact is we were selected by Sandlinburg above many suppliers speaks the quality of our sports group. Moving on to Slide 12. In February, we made a strategic investment in virtual sports startup, virtual sports.



In recent years, virtual sports has become an important part of the sportsbook offering. And as a result, we have observed a growing appetite among our customers to offer a virtual sport product. We think this investment can be can provide a fully integrated service. Furthermore, the deal creates the value of Virtual Sports, with them gaining access to the account based customer list. So overall, I believe virtual sports will strengthen the Cambria's portfolio, improve our offering to our current and existing customers, make us more attractive proposition to the current and future customers and provide a good return on investment.



Turning to Slide 13. The World Cup kicks off in Russia in around 8 weeks' time, and Cambria has been busy preparing for 1 of the world's biggest sporting events. Champions and Business has experienced tremendous growth since 2014 World Cup. We now now have around the double amount of customers, many of whom have prominent market positions within many of the competing nations. And as such, we are committed to delivering a market leading experience to each customer in every market they operate.



For the players, this may be the first time they have used the Cambria powered sportsbook. And we have been working hard to ensure they have every box fixed come June 14. For instance, we will be launching a number of market starts for World Health, some of which we are currently in the final stages of testing. We also understand that the World Cup is more than the the 64 matches. For operators, the weeks leading up to and following the World Cup are also very important.



This is why in February, when we gathered our operators together for our annual Cambria Operator Summit, we demonstrated how we can best leverage the Cambria platform to make the most of World Cup before, during and after the tournament. We did this because KNIME is much more than the other sportsman supplier. We aid our customers with services such as real time pay based updates, customer acquisition tools and expansive widget capability, open APIs and many other resources to ensure they are able to make the most of the Canvys platform. On to Slide 14. So to recap Q1, it was a very successful quarter for Cambys, with a 50% rise in revenue.



We signed another new customer in Kasumu, and we've started that Romania added in Q2, but at least 1 new customer in each quarter for the past 2.5 years. The business has great momentum. And through our scalable model and flexible platform, we are very well positioned to capitalize on market development, such as the opening of new markets. Most notably, we are, of course, focused on what's happening in the United States. And now we will open up for questions.

Q&A



Our first question comes from Christian Hellman from Nordea.



Christian Hellmann here from Nordea. Just a question on volume versus sportsbook margins. So if you could just talk a bit about that and how that sort of impacted the quarter. The sportsbook margin was very high in Q4. And I guess players lose their money don't have much to gamble with in Q1 and maybe their Yes.



Thank you, Christian. As



Yes. Thank you, Christian. As I said before, I mean, we still struggle to have an exact measure of elasticity between turnover margin, but it has a significant impact. And I made a comparison with just a simple roulette example last quarter where I said that, I mean, if you go through that table with SEK 100 and decide to bet on red and win, You can double up the next time and then you lose and you have turned over SEK 300. If you lose the first time, you would see us turnover SEK 100 with exact same result in the end.



And I guess that is the biggest impact on the customer turnover and margin. I don't think it's too much about the customers losing confidence or customers that thing. I think it's more about being able to use the same amount of money several times when the margin is lower. So yes, to summarize, I believe that the little turnover would have been much higher given normalized margin. And just to be very clear as well, Q1 last year was one of the worst quarters, which we get the double effect in the year on year comparison.



Right, on turnover?



Yes, exactly.



And anything on the start of Q2? Is that possible to comment on?



We have chosen never to comment on it because, I mean, it affects many of our customers who also listed. So I leave our operators to comment on the opening of Q2.



Fine. But just to look back at Q2 last year, how was Q2 was relatively weak last year in terms of the margin. Could you say something about how it was during April, May, June last year?



Yes. Yes. As you said, the interim margin was like what it was in Q1 last year. I think it was 6.3%, if I remember well. So obviously, we hope to have a much higher margin.



And on top of that, it's also a world cap. So yes, I expect also to be able to have both higher margin and the high turnover than last year.



Yes, sounds reasonable. And just another question on Norway, which caused quite a big start in the online gambling sector yesterday with some news out about Norway potentially issuing IP blocks or some sort of measure at least in regards to foreign operators. Could you comment a bit on that and how that could potentially impact you and knowing that Kindred is 1 is your largest customer and they have business in Norway?



Yes. So I mean, it's very early stages. I think I mean, the only thing that was issued yesterday was more or less a decision a possible decision on the Semapharm made to investigate possible IP blocking. Having said that, as David communicated earlier, if that were to happen, the turnover can be had from Norwegian customers in Q1 was less than 10%.



Okay, great. Sorry, I missed that comment, less than 10% in Q1. I think and just on finally on the PASPA, the law in the U. S, nothing new yet. When could we potentially hear something about that?



Are there any dates that we should sort of be aware of?



Now I think you're almost in a situation where most dates are important, but I think Mondays, every 4th week are most important potential days. But I think also like yesterday, there were some things coming out from the Supreme Court.



So yes, I can't give



you any special dates, but we and everybody else in the industry expect the decision before end of June.



Okay, great. Thanks. That was it for me. Thank you.



Thank you. The next question comes from EBITDA Hoppe from Pareto. Please



So could you talk about or elaborate a bit about Standard Procurementia? What kind of levels were you on? What's the speed between retail and online? And what kind of potential do you expect from this signing?



Yes. Thank you. So I think it's fair to say that it's a vast majority of the current income is in retail, which will not impact the figures at all until 2019. So the impact for this year, I would say, is not very big. I think for this year, what really excites us about deal is obviously that we have found the 3rd customer to roll out retail in a larger scale, And I think that will have a very, very positive effect on future sales opportunity.



Yes, of course. But does that entail something for you to gear up your like hirings? What's your investments to be able to roll out large scale retail operations for



the next year? It's I mean, we are not operating the hardware. So for us, it's more about building the capability. And that's something we have been building on since 2011. So you don't need to expect any hirings at all because of it.



Okay. Great. So just to make sure about the Triple H renewal. In Q1, you saw the last hit from that from last year. Was that around 3% from the drop through from the other post



there? Yes, that's right. It's around absolute amount to around NOK 500,000. So yes, around 3% in the other column in the workflow.



Okay, great. So do you have any updates on the in the last quarter, you said you're investigating the long term longer term sports margins expectations from 6.5% to 7%, if you were. You were looking to possibly raising it. Have you gone any further in your investigations?



We're still investigating. I think it keeps on being very strange month. It's really hard to get conclusive evidence. So we don't have a new guidance yet to possibly have some winter from Q1.



Okay, great. So going back to costs. Last quarter, you guided, I think, 3% to 5%, and your costs grew sequentially with that amount and now 3% to 5% again. Is this a sequential growth rate to be expected going forward this year and long term? What are you seeing in terms of hirings and other OpEx?



Certainly, for this year, I'd say yes, I mean, I think typically we're going to



be guiding around each 5% a quarter as we take on new start, particularly on the development front. Longer term, we'll see,



but I mean, I hope it



may come down slightly in the most levels on a quarterly basis long term, but certainly for this year, certainly Q2, we're looking at complementary to each by extent.



Okay. So last question. Do you see any material effects from getting the legacy Sten James players onto the Gjermbet brand?



I would say that it's not a big impact either way since we also now have they have moved the unit rating customers over to the new Kindred rating platform. So it's yes, the total is a very small impact.



Okay, that's helpful. Okay, thank you very much.



Thank you. Our next question comes from Rasmus Enver from Handelsbanken.



Just wanted to ask you, since you mentioned Norway, would it be fair to assume that Sweden is slightly more than twice that exposure given you've got both Kindred and some other clients that are stronger in Sweden. Is that something you can comment on?



No, we're not sure it's a Nordic we chose to give you some guidance of Norway at this point. But I mean, no, I think we shouldn't give you more guidance on this.

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Okay. All right. Thanks.



Thank you. There appear to be no further questions. I return the conference back to you.



Thank you, and



thank you for your questions and for listening in. We look forward to updating you again on the 25th July when we publish our 2nd quarter results for 2018.

