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# Kambi Group

Q2 2023



## Prepared Remarks

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Morning, everyone, and very welcome to Canby's Q2 2023 Report. My name is Miro Lander, and I am Sineva's President, Investor Relations. And I am here today with our CEO, Christiane Lian and our CFO, David Kenyon. Today, we will start to hear our CEO, Christian, to talk about the highlights, followed by our Vice CEO, David, talking about our financial highlights. Then Christian will come back on the stage and talk about commercial and strategic updates, vice president.



And then we will have questions. So if you have any questions, you can either call to us here or send them in the text chat box, and I will read them for you. So once again, very welcome to our presentation and over to you, Christian.



Thank you, Mia. So yeah, good morning, everyone. I think this time, Overall, we are very pleased with the quarter. We have achieved a lot of what we hoped for and I will talk more about that later. But the first results, Strong revenue growth, 24%.



Very pleased with that and of course, very much driven by Record high trading margin. A little bit disappointed with underlying turnover, But I think to a very large extent, it's hampered by the historically high betting margin that we had this senior vice president of the quarter. I think David will talk more about it later. But the main highlight of this quarter, of course, is The signing of Vale's. For many quarters, we have talked about a very, very strong pipeline.



And finally, We're happy to announce that we have it has resulted in a major signing with Ballis, which I will talk more about later. We also have a few significant renewals, BetPlay, Liovegas and Puff. And we have done further progress



Thank you, Christian. Good morning, everyone. I'll start with the highlights then for the quarter. First, our revenue. Revenue was EUR 42,900,000 this quarter, up from EUR 34,700,000 last year.



As Christian mentioned, An extremely strong operator trading margin of 9.9 percent was a big contributor to this CHF 42,900,000. And we also saw the addition of Shape Games since Q2 last year, Which added just over SEK 3,000,000 to this number versus the comparative. Revenue for the first half was SEK 86,900,000, up from SEK 71,500,000. The next metric we show here is the earnings before interest, tax and amortization on acquisitions. This for the quarter was SEK 5,000,000 compared to SEK 5,200,000 Q2 last year.



However, it's really important here to mention the big swing we saw in FX. So we saw a SEK 0,700,000 loss on our P and L from FX this quarter, but a CHF 2,300,000 gain this time last year. So stripping this out, actually, a CHF 2,800,000 increase Cinevaz in earnings, poor interest, tax and amortization on acquisitions. In terms of cash, we actually used our cash for some important corporate transactions this quarter. Firstly, we used SEK 7,500,000 to repay our only external debt, which was the convertible bond, and we used SEK 7,200,000 for share buybacks.



And this still leaves us with a very healthy cash position of CHF 57,100,000 at the end of the quarter. Here's the turnover index, which I show each quarter. It's, as you remember, an aggregation of the results of the entire portfolio. So the blue columns are an aggregation of the turnover of our operators based on an index which started at 100 when we first listed. That is showing 6.83% for the quarter.



The orange line is an aggregated operator trading margin. That's the 9.9% we referenced earlier. I think the first thing to mention is the typical seasonality we see in Q2. It's a quiet sporting calendar in this quarter. In Q1, of course, we have the end of the NFL season with the playoffs and the Super Bowl, which contributes materially in Q1, but of course, nothing in Q2.



And similar picture in basketball, big turnover decrease in basketball from Q1, where we saw the vast majority of the March Madness Matches and turnover. This is offset to some degree by the start of the MLB season, which contributes through Q2. But overall, as usual, a quiet sporting calendar in Q2. In terms of specific factors affecting our number on turnover, there's probably 3 that's worth mentioning. Firstly, Penn National Gaming have seen decreases in market in their market share in some of the publicly available states.



So that has impacted our numbers, but I think it's an important time to Remind you that we will start recognizing a transition fee from Penn as they move away from our online business or their online business moves away from Canby. In terms of foreign exchange, this has also hurt our turnover index here. There's been a weakening of the U. S. Dollar, the Swedish krona and the Colombian peso, which are all Material factors when we look at calculating our turnover, our operator's turnover.



And that weakening has led To a decrease in the turnover that we recognize, it would have been 7 just over 7% on constant FX basis Clearly, a correlation between the turnover and the margin. So when we report a hugely strong 9.9% margin, This directly impacts the level of turnover and reduces it. So these are all factors which we can say decrease, but offsetting that turnover decrease Is the 9.9% margin, which is extremely high. We've seen particularly strong margins in football. So in some of the major European domestic leagues and also the Champions League.



We've also seen increased turnover from our bet in our bet builder product, which Turning now to our revenue conversion slide. On the left, this is how we move from the turnover growth percentage to the revenue growth percentage. And starting on the left is turnover growth on a constant currency basis versus Q2 last year, and that's 7.3% The operator margin impact is the 9.9% versus a comparative of 8.6%. So clearly, a huge increase there. And that leads to the operator gross gaming revenue increasing by 21% versus Q2 last year.



The impact from tax and marketing these days is relatively negligible. The Percentage of our business that's coming from locally regulated markets is fairly steady now in the mid-ninety percent, so not much impact there on that line. Our revenue model is predominantly based on revenue share with tiers based on the level of net gaming revenue. So where we see Kind of north of 20% net gaming revenue growth for our operators. This actually has, to their benefit, reduced effective commission rate across the network.



So That's why you see a kind of a downwards push from those reduced effective commission rates as the business of our operators has grown significantly. And the last one to mention here is Shape Games. Of course, it was not there in Q2 last year. It was an acquisition made in September 2022. And here, we see revenue of EUR 3,200,000 enhanced versus last quarter by a full quarter from the Wager deal that we talked about last time.



All in all, these things contribute to a revenue growth of 24% for the quarter. Quite a bit to talk about on the cash flow this quarter. Starting on the left with an operating profit of SEK 3,700,000. This was boosted in terms of cash by cash receipts from our strong Q1 and also some temporary timing differences on payments on some of our a couple of large supplier payments, but that will regularize in Q3. Then we bought 380,000 shares back in the company for We also repaid our convertible bond in full.



That was EUR 7,500,000. We'd already announced that we had satisfied certain financial performance criteria to enable us to do that. And this was kind of our only external debt in the business, and that is now fully repaid. The tax paid amount of almost CHF 5,000,000 incorporates both corporation tax and withholding tax. But the large That kind of feature here, I guess, is the Maltese tax structure, which we're subject to, whereby you make an initial payment of your corporation tax and then get a refund back of a large part of it.



So although we made large payments in Q2, we actually have a tax debtor of CHF 3,400,000, which we expect to receive in Q3. All of that leaves us with a very healthy cash balance of EUR 57,100,000 and I'd say a very strong balance sheet as we move into the future. And with that, I'm going to pass you back to Christian.



Thank you, David. All right. So at CMD, we And I just wanted to remind you of these before I go through our updates. 2, You retain key partners, roll out the AI powered pricing, extend our lead in Americas, sign Tier 1 operators across our product portfolio and launch a major regulator Asian market. So first of all, I would like to talk about Vale's, of course.



I'm very, very pleased that we got this deal done. We have been really working hard to get a Tier 1 operator on our books again and very pleased We are actually number 5 on the global EGR Power 50. So it's a major brand we're talking about. Historically, they have been much stronger on Casin and iGaming, but we hope we can help them to become a power brand also on sports betting. With this partnership, Bally decided to Scrapper in house sports betting technology and go with us instead to maximize their opportunity in the sports betting field.



And we are very, very pleased to be able to go on a journey with them to help them to achieve that target. I think this is a further evidence that Cambys complete sports book remains on high demand even for larger operators. Bali have recently and already launched in 2 on property locations with us in Louisiana and Mississippi. Vice. And we're looking for a quite a fast rollout during the autumn in more retail properties and also online.



One of the major things in this Vale deal was, of course, their flexibility and possibility to work And have a lot of say on how to work with sports betting. As many other operators, we have chosen to use Sineivas. Frontend online and will be powered by our APIs. In this deal, we have also given Ballis an option to acquire a certain part of Cambie source code. If they do so, they will take modular services from Cambi.



But for them to be able to buy the source code, certain prerequisites has to happen. A little bit more about Bali. First of all, I think, yeah, it's very known brand in the U. S. And I think to fully understand the opportunity, roughly Well, almost \$1,000,000,000 of revenues is coming from outside of the U.



S. I think we have very, very strong brands after the acquisition of Gamesys in 2021, both in Europe and also in Asia and especially Japan. Bally also have a regional network in the U. S. Where They are branded at 21 different regional networks where you can watch local professional Porch.



So Balibet will be a very strong brand in all these local markets. In total, Bali is have access in 18 states. So We think we can be a major player in U. S, but we also really see an opportunity both in Europe and Asia Over the last couple of months and especially on our Capital Markets Our modernization strategy. We now think it's time to create a standalone division of these services with the Kambi Group.



Why do we do this? Yeah, first of all, we want this team who is very fast and agile to continue to be agile and have the speed to create the best product we possibly can Without taking too much consideration about the rest of the Canopy Group. We'll be totally focused on the product. And this product can be, of course, be sold within KNB complete We also wanted to create the right incentives for key employees here. This is an area where we really believe that we need to incentivize these really talented guys in the right way.



We believe we have a fantastic soccer product already. As you can see on the figures here, Amazing increase we have got through this soccer product pretty much. I think this Service will create a new benchmark in the industry. And we have already won an award at EGR for best innovation of the year. We believe we are a step ahead when it comes to AI powered pricing.



And we believe that this is the future and that we have something very, very unique here. During the quarter, we also did a few significant partner extensions. First of all, BetPlay. BetPlay is a market leader in Colombia and has been an absolute fantastic success both for us and BetPlay, of course. And it's now one of our absolutely most important partners.



So it's very pleasing to see that we have extended for the long term with them once again. LEOs VEGAS, which was recently acquired by MGM, is obviously also a very important partner to us And very pleased to see that we wanted to extend with us. And I hope we can take this partnership to another level given their outspoken plans of expansion. And finally on extensions, we have also extended our 1st B2B partner, Puff, who has been with us already since the beginning in 2010. We have also signed Warhorse, who is a leading operator in a retail only state of Nebraska.



I believe we will get a really strong position in Nebraska as it's only retail and this is the one partner we really wanted here. And we have already gone live in our flagship property. We have already talked about the launches of Bally and Kindred and Bally and Warhorse. We have also extended we have also gone live with Kindred in Washington State. In Latin America, we have expanded our Argentinian footprint with Bet Warrior in the province of Mendoza.



And finally, we have also supported Leovega's with the launch of the Xpect brand in Denmark. After Q2, we have done another signing in IAS Gaming. So firstly, who is IS Gaming? They are backed by a major gaming operator in Europe called Gaussmann Group. And I think they give them some power to do good things in the future.



We have a very experienced management team. We are working on the bid gaming platform. For Brazil, we have teamed up with a Brazilian soccer news website, Lens, who have 15,000,000 active users per month. So this is a great opportunity in Brazil. And as we heard yesterday, The President signed provisional measures.



So it's very likely that Brazil will be regulated within 4 months. After Q2, we have also done sorry, we have also already launched Lens in Brazil by vice. After Q2, we have also completed some more launches. We have already talked about the Ayas and Ballis, of course. We are very pleased to see that Eibios has gone live with our Esports other products for the first time with first partner, Dragon Eye in the UK.



And of course, on the 9th July, we stopped taking bets with Penn Online ahead of our transition to their in house sports book. So to summarize the quarter, I think we have very strong commercial momentum. And of course, it's headlined with a Bali signing and with key renewals. Our AI capability to pioneer the next dimension of sports trading Takes us to a very, very strong position. I believe we have made significant progress made towards the 2027 growth drivers.



And for once accounting my varies, Our sales pipeline is still very, very strong. Thank you very much. And with that, we go to Q and A.



Senior Vice President.



Thank you very much, Christian and David. So now you can either call into us and ask your questions or you can send them directly to me. But we start with the telephone questions. So over to them, please.

## Q&A

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The next question comes from Oskar Ronkvist from ABG. Please go ahead.



Thank you. Good morning, guys. Thanks for taking my questions. So first, I just have a question on the inverse relationship between the turnover and the sportsbook margin. So I appreciate that strong sportsbook margin is a net positive to top line.



But I know, David, you said that it's difficult to quantify, but if you could help us understand the magnitude of the inverse relationship, Just looking at like Q3 last year, the sports book, money was exceptionally high at 9.5%, but the Turnover index excluding DraftKings remained pretty high at 20%. So just wanted to get a sense here of how we should really Think about the run rate on turnover. Thank you.



We have never really got to an exact figures, but I think Historically, and of course, it's a difference if you are at 7% and change 1 percentage or if you are at 9% changing 1 percentage. But Historically, we believe that the 1 percentage should probably impact the turnover by 5% to 10%.



All right. Thank you very much. Just the next one, just on the operator trading margin, we have seen some increasing parlays. I think that we You could actually call it like a structural trend upwards in the operating margin. Now the last 12 months is at 8.8%, I think, And you reiterate your coming 12 months guidance of 8% to 9% trading margin.



So just wanted to get a sense of why we should not expect that The expected value to be slightly above SEK 8.5 in the future given the structure of the trends we can see. Thank you.



Yeah. It's possible that we should again have a look at This guidance, there are a lot of signs going in that direction. So Yeah. I may agree, but we should actually look at the guidance again on this. We have more and more of our turnover coming from Bet Builders, especially which makes the margin go up.



Understood. Thank you. Just next one on modules. So given that vice We have not seen any modular signings. Just wanted to get a sense if it's like fair to assume that you currently have a strong turnkey pipeline And that is what you are focusing your resources on instead.



And just still thinking about like the European legacy operator Pipeline that you have previously talked about, Christian. Thank you.



Yes. I think I mentioned that last time already that we may slightly delayed. We're focusing on modular services because of that. We have already signed Ballis since I mentioned that. And as I said before, we believe our pipeline is in a very good shape at the moment.



So we may push out the modular services slightly to win a few more deals on the complete product, vice. Which we are in good position on.



But having said that, we have launched with Abios and their first ops customer. So that's, of course, also a model as well as Shape. So we started focusing on SHAPE and ABYOS right now.



Understood. Thanks. Just one final question, if that's okay. So just on the Vale's pipeline internationally. So you said that you are, I mean, obviously, going to expand with Validus internationally.



They have a strong presence in the U. K. But I also wanted to vice. Here are some thoughts on Japan, for example. So I saw that their brand, YUGADO, which is a quite big one in Japan, recently went live with sports betting.



And I know that it's not with your sports book, but given that you signed or you did sign an exclusive partnership with Vale's, can we Assume that you will power Yigado as well or are you awaiting a regulation before that will happen? And just one question on Brazil. Did you mention that you had already went live with Lance, if you had any comments on that?



That's correct. And when it comes to your first question about ballast in Japan, It will happen at some point. I'm pretty sure. I can't tell you exactly when at the moment.



The next question comes from Victor Hogberg from Danske Bank. Please go ahead.



Good morning. So, yes, a bit more on the modeler versus turnkey customers And the focus internally, could you help us understand why focusing on turnkey customers is hampering your ability to sign modular customers? Is the demand not really there? You need to work the customers to them understanding the new products? Or just what are the dynamics here that makes



As I said already last quarter, Some of these potential customers and that may include Vale's as well. We have agreed on certain or potentially have to agree to certain development work that would take up quite a lot of our resources. And As we said from the beginning, we will modernization. There is some work to be done when we have signed the first customer On the modularized services. So it's an in house capacity question.



And is that something you can manage with the existing organization or would assigning until further hiring?



We can manage it with existing organization as long as we push out other things.



Would you say it would make sense to add that extra capacity so that you wouldn't have to delay or is it a testament to the uncertainty of the potential signings in the pipeline?



It's something we're evaluating, vice. But it's not impossible. Having said that, it's not always the easiest to just



I respect that. Okay. On the OpEx guidance then, and ties into this one, keeps on But still a quite wide range, SEK 10,000,000 for the second half. What's the puts and takes to that range? Yes.



It's a few that are kind of share price linked, where we have costs that On options, for example, that are linked share prices or and various kind of staff variable staff costs, which are performance based. So there is some uncertainty, but overall, we've got a pretty clear view on where we're heading with costs. There are but of course, there are a few moving parts, which is why we can't narrow it Even tighter yet, but hopefully, we we'll narrow it again at Q3 and we I think we've got a good track record of coming in within our guidance. So hopefully, you can get a good steer from it.



Given the future guidance, it leaves



a lot for the Q4.



It can't all be tied I'm just thinking it seems like quite a big range for the Q4 actually, Give me what we know now. Is it too wide, very comfortable with not being above it Sorry, not above, but in the high end of it, would it be more reasonable to be in the midlower end of the guidance, what we know now?



I think historically, we typically come in at the towards the middle, maybe lower middle. So use that information as you wish. We will narrow it again at Q3 for Q4. I mean, it's there's no great moving parts here. There are just some and we don't want to give you the wrong guidance.



So



There are no more questions at this time. So I hand the conference back to the speakers for any closing comments.



Thank you. We have a few here. We start with Vale's. First, just to clarify that they will use us outside U. S.



As well, right? Is this correct?



Yes, absolutely. I think the focus from Vale's at the moment is on getting us up and running as soon as possible in the U. S. And After that, we will focus on outside of Europe outside of U. S, sorry.



Yeah. And after the decision of Vale's to leave their own sports book technology. Do you expect a similar trend?



I surely hope so. I think there are definitely more operators out there giving them the best chance to win market shares and also not being very cost efficient for them.



Thank you. David, a question for you here. You have previously talked about how big Penn is of revenue. Is anything you can say today?



Yes, sure. I mean, in the past, we've Thought about them being 10% to 15% of our revenue based on the publicly data that you can then kind of make some wild assumptions and get back to 10% to 15%. I'd say with the trend we've talked about in the last couple of quarters, they've definitely come towards the lower end of that range in terms of our rec contributing to our revenue. Worth bearing in mind, of course, we're going to keep operating the retail from July onwards. So that's approximately a quarter of the business that will stay with us.



And for the rest, we're then Cinnabas. Cinnabas covered by those transition fees of \$15,000,000 over the next 5 quarters I talked about. So yes, of course, it's a shame to lose that business, but I feel financially, we're actually quite well protected



AES. How did it go how did you do? And you were live since day 1. Feel about them being live in Brazil?



Not sure I Understood question there.



I guess they launched quickly after signing.



Yeah, I mean We feel that Brazil is a gray market. We have not restricted our current operators to operate in Brazil historically either. Vice from day 1 if we felt we wanted to.



Are you excited about the announcement from Brazil?



Yes, absolutely. I think vice. I would be quite surprised if a parliament is not going on the same line as a president and that this will be signed off within a mandated time of 120 days.



Yes, great. Exciting. We have been discussing for many, many years. So it's very exciting that it's moving there. Quite a few questions regarding AI.



Is this the model you actually believe most in vice of all the models. How do you think about it?



The model of pricing, yes, without a vice president. I think there will always be some sports where it's not really worthwhile taking it the whole way Because the sports are so small, but for all the big sports, This is definitely the way. I think it will create a much, much richer product for the end users. We can do it more cost efficiently and we can do it with well less Errors as well. So I can only see upside.



We've the new technology out there.



And how do you see the product road map? We are live now with soccer. What's next?



So As we said earlier, we hope to be able to get soccer in play launched during the autumn. Vice. And next up is tennis, which we would hope to best case get up and running in early next Chair. If we're really doing a good job maybe even for Australian Open.



Great, Citing. Christian no, David, sorry, over to you. Do you plan to announce any further buybacks in the coming month?



I mean, we did, of course, very recently complete some. So there's no imminent plans, nothing announced. But what I would say, we're you saw the cash balance now, which is We're debt free, and we're just going to build that cash balance back up again. So we'll have the firepower to do it. Ultimately, it's a Board decision if we go ahead, but it's definitely a possibility.



Vice. We've done 2 rounds now.





And then another one for you, David. Quick clarification. Did you say that Shape Games contributed to EUR 3,200,000 in Q2?



In revenue, yes.



Yes, in revenue, yes. Yes. Yes. Clarifying that. Christian, can you talk a bit more about



Ongoing quite a long time. They already had started working on their ODDZ product When we acquired them and it's looking really, really good. It's very early days. I would say that this is very much based on similar technology as the rest of our AI trading since they obviously have cooperated. So vice.



Very exciting. Now I think the biggest step for us is to actually being able to utilize this on The Canbe network which is ongoing and then I think that is Probably for Ebyos, extremely important to get a larger audience on it to be able to sell it



vice. Can you say anything more? Is it U. S, LatAm or Europe?



I think we have opportunities more or less vice everywhere except Antarctica at the moment.



Great stuff. Thank you very much, Christian and David. And thank you very much for listening to us today. We will be back here with our Q3 report, 1st November. As always, if you have questions, feel free to reach out to the IR department.



And I really wish you a very good day. Thank you.



Thank you.

