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Kambi Group

Q2 2021



Speakers



David Kenyon
CFO | Kambi



Erik Moberg
Analyst | ABG



Kristian Nylén
CEO and Co-Founder | Kambi



Operator



Viktor Högberg
Analyst | Danske Bank

Prepared Remarks



Kristian Nylén
CEO and Co-Founder | Kambi

Good morning, welcome to Kambi's Q2 quarterly report presentation. I am Kristian Nylén, and with me is our CFO, David Kenyon. Let me go through the agenda for today. I will start talking a little bit about the highlights. David, can you turn the page? Then I will hand over to David to go through the financial highlights, and then I will come back and talk a little bit about the strategy update, the Euro, the Canadian opportunity, and then we will have Q&A. Let's go to financial highlights, please. This was a really strong quarter again. We had revenues of EUR 42.8 million, with an operating margin of 39%. We have net cash rising to EUR 84.5 million. Very pleased with the numbers.



Kristian Nylén
CEO and Co-Founder | Kambi

The one number we probably would have been hoping for slightly better, and we'll come back to it when we talk about the Euro, is the turnover. In general, a very strong quarter, which we are very pleased with. We increased our U.S. reach with online launches across four different states, of which we did three launches in five days with Churchill Downs. In South America, we expanded with NG Gaming or their brand Olimpo.bet in Peru, and that's the brand we hope will take us through to two other states in South America eventually as well. In Europe, we launched our first state lottery, going live with the Belgian National Lottery just before Euros. We will go live also with retail in a few weeks.



Kristian Nylén
CEO and Co-Founder | Kambi

Finally, of course, the highlight of the quarter is the Euro 2020, which was long awaited, one year delayed due to the COVID, delivering a very strong operator trading margin, and in general, was a great success for us. I will come back to that a little bit more later. I hand over to David to talk about the financial highlights, and then I will come back later again.



David Kenyon
CFO | Kambi

Thank you, Kristian. My name is David Kenyon, Kambi CFO. Good morning, everyone. The financial highlights. We had revenue in Q2, EUR 42.8 million. Our costs were EUR 26.2 million, in line with the previous guidance. This gave an operating profit for the quarter, EUR 16.6 million at a margin of 39%. For the first half year, we had revenue of EUR 86 million and EBIT EUR 35.3 million. When we look at comparisons to last year, Q2 last year was heavily disrupted in terms of the sporting calendar, the operating loss for last year and all the other comparatives we look at today should be viewed in that context. Very strong numbers here, Q2 2021. This is the Kambi turnover index. It's where we aggregate the results of all our operators.



David Kenyon
CFO | Kambi

The blue columns represent the aggregated turnover on an index basis on a quarterly basis, and the orange line represents the aggregated trading margin made by the operators each quarter. Football and Basketball were the main two turnover drivers for us this quarter, and both of them showed really strong margins, particularly the Football, where virtually all the major European Football leagues had very high margins this quarter. In terms of the turnover number being down at 911 from last quarter, there's a few real reasons for this. I think principally the seasonality effect. In the U.S., there was no American Football, and we just saw the last few matches of March Madness here in Q2 in terms of college Basketball, which had been a major turnover driver in Q1.



David Kenyon
CFO | Kambi

This 9.3% margin, which is above typically where we expect to land, does have a dampening effect on the turnover. We saw the initial transition of states by DraftKings of some of their markets away from Kambi, which probably impacted the turnover index by approximately 30-35. I wanted to mention this because this one will have a significantly larger impact in Q3 when most states will already be transitioned by DraftKings. This will impact the turnover significantly in Q3. We will still earn revenues on that business for Q3 up to the end of September. It should be noted, this turnover index will reflect that come Q3. Having said that, there is a really strong sporting calendar starting to pick up again during Q3. We have the Olympics starting this week. We've got the return of the major European soccer leagues in August.



David Kenyon
CFO | Kambi

We have the NFL starting in September. We hope for new regulations in quite a few states in the U.S. in particular, such as Arizona. Lots to look forward to in Q3. Here on this graph, we show what we call the waterfall. The conversion of operator turnover growth through to Kambi revenue growth. At constant FX rates, turnover grew by 270%. That was then added to by the increase in margin, where we had a margin of 9.3% this quarter versus 8.2% Q2 last year. That led overall, after the taxes and marketing, to a 294% increase in net gaming revenue for the operators. 65% of this growth was then converted to our revenue growth. The other column does look large there.



David Kenyon
CFO | Kambi

That's really because last year operators were typically with the low activity due to COVID, they were on the lower end of the tiers, so the slightly higher commission rates, but as their business has significantly grown this quarter, obviously they're on slightly higher tiers, which mean lower commission rates. That's reflected there in the other column. The 65% conversion is really where we'd expect to land anyway in a normal period. No real surprises there. Again, I just want to mention how Q3 might look for this waterfall. It's going to be a slightly strange quarter. We're going to have the turnover from these transition DraftKings states coming out of the column on the left, so the turnover growth, but we will be earning revenue on that business.



David Kenyon
CFO | Kambi

We expect to see a slightly depressed turnover column, but a much smaller negative impact in the other, which is where we'll see the revenues come in, but without the turnover. I'll explain that again in Q3 when we see the actual numbers, but I just wanted to flag it will look slightly unusual just for one quarter. Turning to our balance sheet, which is looking particularly strong there now. We had EUR 92 million of cash at the end of the quarter. We had a EUR 14 million cash inflow in Q2, and we had a very healthy equity to assets ratio of 72% at the end of the quarter. I think this does leave us in a really strong position to look at M&A going forward, which can either fast forward our growth or widen the moat of the competition.



David Kenyon
CFO | Kambi

The type of areas we might look at for M&A could be complementary products to our existing sportsbook. It could be sport-specific product enhancements. It could be artificial intelligence, which will help make our operations more efficient. It could be in the area of player account management systems, which will increase the scope of our service. These were areas we did discuss on our Capital Markets Day in June. I just wanted to pick up on some of the themes we talked about. It's still available to watch on kambi.com, please, you can see the full thing there. Really some of the things we talked about were the strategic pillars, which Kristian will touch on now, but we set out how we saw the strategic pillars for our future growth and success.



David Kenyon
CFO | Kambi

Our COO talked about the next generation Kambi sportsbook. How it will work with new technology, how it will adapt to fit the market's need for differentiation. I talked a lot about the potential addressable market, where we built it up region by region, and we made an estimate of, in terms of operator GGR, EUR 44 billion-EUR 63 billion by 2026. Just going back to that theme, this is really how we built it up. We split it into the main areas. It was the U.S., which we thought could reach EUR 15 billion-EUR 20 billion in terms of operator GGR by 2026. The rest of the Americas, EUR 4 billion-EUR 7 billion. Europe, EUR 18 billion-EUR 26 billion. Asia, EUR 7 billion-EUR 10 billion.



David Kenyon
CFO | Kambi

This is obviously a long-term 2026 view, but we'll keep you posted with progress as we go in some of these different areas. Already in Q2, we already saw steps since our Capital Markets Day. In terms of regulation, we're seeing progress in New York with the regulations being announced, and Arizona, where regulations were announced, and they're looking for a pre NFL go live. There are various other states, actually, in the U.S., which are also in the process with regulation right now. We have Canada, major opportunity, which we flagged at Capital Markets Day, and there's actually been progress on that front since then. Kristian will talk about more about that shortly. We've had signings. In South America, we signed with NG Gaming for their Olimpo.bet brand, as Kristian mentioned.

**David Kenyon**
CFO | Kambi

That's something that we really got the opportunity to expand our footprint in the South American market as they launch in Peru, but also potentially other South American countries. We've had launches. The one I wanted to flag in particular was the Belgian National Lottery, where we launched online with them during Q2. Our first National Lottery launch and a very exciting prospect. I think some good steps in all these areas towards the longer-term view on the addressable market. With that, I'm going to hand you back to Kristian.

**Kristian Nylén**
CEO and Co-Founder | Kambi

Thank you, David. On the Capital Markets Day, we talked about the four strategic key pillars for us. The first of those is, of course, our core platform that is driving everything we're doing when it comes to product, but also the importance of having a regulatory compliant platform in various jurisdictions and the importance of that. We talked about the differentiation and empowerment. We talked about the power of a network, us being able to provide our service to over 30 operators in all continents across the globe gives us a very strong advantage when it comes to understand player behavior and risks across the globe. Of course, our highly scalable business model. The two ones in either end, I will go through a little bit more in detail soon. We have done progress in all four areas.

**Kristian Nylén**
CEO and Co-Founder | Kambi

On the differentiation and empowerment, we have, during this quarter, automated our price differentiation, which gives our operators more control to schedule their pricing to get their promotions more efficient. When it comes to the power of a network, we have been working quite a lot with development of models with machine learning to detect price inefficiencies. Take next slide, and I will talk a little bit more what we have done when it comes to the platform and the product. The American football, which is a massively important sport for us nowadays, of course, we have developed the same game parlays, which is something we have had for a few years, especially on the soccer. It has been very important for us. I will talk a little bit more about that when we come to Euro slide a little bit later on.

**Kristian Nylén**
CEO and Co-Founder | Kambi

I think this will be a product that will really stand out in the market, and I think it will give our operators a great chance of really gain more market share. When it comes to the trend in the industry for a few years now has been that the players want more control over the betting and are more keen on combining different things within a certain game. What we also allow, which is quite unique, is that you can also combine, not only within games, but you can do it in multiple games as well. Yeah, this, I believe, will be a very strong key feature, which will be hopefully launched slightly ahead of the first game early September on the American football. Let's take next slide.

**Kristian Nylén**
CEO and Co-Founder | Kambi

When we're talking about the highly scalable business model, of course, it's very much about the possibility for us to launch our service to new regulations with existing operators, but also launch with new operators all the time. Do that with a technology that is very scalable, so we don't have to do very much extra work to launch new operators. This quarter, we signed and launched the Olimpo.bet brand with NG Gaming in Peru. From signing to launch, we did it in a very short time to get them ready for the Copa América. As I talked about earlier, we have also launched with three operators in four different states in the U.S. during this time. As I also mentioned on my highlight slide, we launched Belgian National Lottery, ahead of the Euro 2020.

**Kristian Nylén**
CEO and Co-Founder | Kambi

It has been a lot going on during this quarter, and this is something that will be quite prevalent during the rest of the year as well. We expect a lot of new launches, especially with new regulations in the U.S., but also launching a new signing we did in Australia and a few more in Europe. Next slide, please. Talking a little bit more about the Euro. It was a record summer tournament. It beat the 2018 World Cup, even if it's less games than it is in a World Cup. I would say, though, since they changed the tournament format in 2016, the interest for the group stage is lower. I think it's mainly because the more teams makes less of interesting games in the group stage. In most groups, three out of four teams are qualifying to knockout stage.



Kristian Nylén

CEO and Co-Founder | Kambi

Having said that, I think the heat really picked up when the knockout stage started, then we really saw the turnover picking up quite big for a last game. One feature that we have been working quite hard on is to have a really good experience when matches go beyond the regular time, which happened in eight out of the 15 knockout stage matches. On average, on those matches, we saw 40% of our live betting being placed on the extra time and the penalty kicks. I think, again, something our operators really could gain from our really strong technology and offering during the extra time. We talked about the same game parlays or Bet Builder it has also been called, and how much that is driving in soccer already.



Kristian Nylén

CEO and Co-Founder | Kambi

20% of all Euro 2020 gross gaming revenues came from the Bet Builder or the same game parlays. Next slide, please. I also want to talk a little bit about Canada. Canada is a market that has been a monopolist market for many years, where also it has been only allowed with parlay betting, so at least three matches in every combination. This is something that has been talked about for roughly a decade to change, now it has happened. Canada will become a regulated market, and they have removed the parlay requirement. We estimate the Canadian market to be up to worth EUR 2.1 billion in GGR by 2026. With that, Canada will become quite a large market, actually one of the largest in North America, especially the state of Ontario is very exciting to us.



Kristian Nylén

CEO and Co-Founder | Kambi

I also just briefly touch on, with our Swedish heritage and the interest we have in our current market in ice hockey, I would say that Kambi is the perfect fit for the Canadian market. Next slide, please. During the quarter, we have also been very successful winning Kambi awards. It has been two larger industry awards ceremonies during the last couple of weeks. On EGR, we took the three awards we could win. We got the In-Play Software, the Sports Betting Supplier, and the most prestigious probably is the Sportsbook Platform Supplier of the Year. On Global Gaming Awards, we won both the Online Sports Betting Supplier and the Retail Supplier. Obviously, I'm very pleased with that, especially for all our staff to feel the recognition of doing a great job. For us, it means a lot, and we are very happy to win these awards.



Kristian Nylén

CEO and Co-Founder | Kambi

To summarize the quarter, again, a very strong financial performance, very pleased with the numbers. As we saw, we are doing progress across all our key strategic pillars. We see more and more markets regulating, presenting more opportunities for us. At the moment, especially, we're looking forward to more states in the U.S., Canada opening up, and of course, also more opportunities in Latin America. Thank you for that, and with that, we open up for Q&A.

Q&A



Operator

Thank you. Ladies and gentlemen, if you do wish to ask a question, press zero one on your telephone keypad now. That is zero one to register for a question. We have a question from the line of Erik Moberg from ABG. Please go ahead.



Erik Moberg

Analyst | ABG

Hi, Gents. Thanks for taking my questions. To start off, I think the main concern at the moment for the market is the development Q3, Q4, when you will lose contribution from DK. Just when I'm looking at the second half and when I model out U.S. by state, in Q3, you only have one large month. In Q4, you have three large months. I'm just thinking about the sequential uplift for the underlying market, plus the fact that Penn will expand into more states. To me, it still seems like U.S. revenue still will remain flattish to slightly declining from Q3 to Q4, while the market currently is pricing in quite a steep decline. If you perhaps could elaborate a bit on your own thoughts regarding this and the dynamics, that would be really helpful.



Kristian Nylén

CEO and Co-Founder | Kambi

David?



David Kenyon

CFO | Kambi

Thanks, Erik. Firstly, let's take DraftKings. If you work back from the public numbers, you get to in the range of 20%-30% by revenue. That will go at the end of September. You have the unknown, which is how will the others develop, how will the new rollouts develop, and how will the new states come on board, and the seasonality effect with, of course, the NFL and college football during Q4. We know what's going out. We're pretty sure that there's more coming in. The question is how much it makes up for it. We're not going to put a forecast out there, we've got lots of reasons to be hopeful that there's a lot of tailwinds behind us. I guess that's as far as we can say at this stage.



Erik Moberg

Analyst | ABG

Got it. Just thinking about just pure seasonality effect, with three large months based upon your current customer base, and if we also assume Penn expanding, that will obviously give quite an uplift for your underlying business Q on Q, correct?



David Kenyon

CFO | Kambi

Absolutely. Those are undeniable tailwinds, so that's for sure good. That's definitely in our favor, yeah.



Erik Moberg

Analyst | ABG

Got it. Just on the European side of the business, listening to your sector peers and even some of your current clients, it appears that everyone seems to count on an acceleration in mid-August if we think about activity-wise. What are your own expectations regarding this, and do you see any sort of risk for negative reopening effects here?



Kristian Nylén

CEO and Co-Founder | Kambi

No. Obviously, July is the worst month of the year both in U.S. and Europe nowadays. August should really pick up in Europe because the soccer season starts. I wouldn't put too much into the Olympics, but it helps a little bit, of course. I think September, that's the month when everything really are starting to take off again. You have more or less full season of the European soccer and then you get the American football on top of it. It is slower now and definitely will take off coming September.



Erik Moberg

Analyst | ABG

Got it. You also mentioned in the report that the Euro gold medal game was the highest turnover soccer game you've seen. If you perhaps could add some color on how much larger versus the prior record it was, and also to compare activity level for the Euros in July versus last year when you had some soccer leagues up and running. If you could just perhaps give us some flavor on the year-over-year dynamics there.



Kristian Nylén
CEO and Co-Founder | Kambi

I don't know the figures by heart, unfortunately, Erik, but it's a massive difference on having a Euro going on and having some of the leagues going on. The difference is when you have leagues going on instead, like you had last year, it's so many more matches spread out over a much longer time, of course. I would say looking at July year-on-year, you only had seven matches of Euro in July.



Erik Moberg
Analyst | ABG

Yeah.



Kristian Nylén
CEO and Co-Founder | Kambi

July for sure is a weaker month on soccer than it was last year.



Erik Moberg
Analyst | ABG

Got it.



Kristian Nylén
CEO and Co-Founder | Kambi

David, do you have anything on the numbers?



David Kenyon
CFO | Kambi

I think you've got it spot on. Those seven matches are great, but it's not the same as having regular league matches every week.



Erik Moberg
Analyst | ABG

Fair enough. Just on your current pipeline when it comes to customers, you compare the pipeline now versus a year ago, how does it stack up, whether or not you're facing more competition when it comes to contract negotiations, et cetera?



Kristian Nylén
CEO and Co-Founder | Kambi

I would say the pipeline looks, if anything, better than a year ago. I think there is a lot of opportunities in more markets than we had opportunities in last year, so that is very positive. I think obviously the largest competitor we had before, SBTech, is not really in many discussions anymore. I would also say that the rest of the competition has not really replaced them. I think we have a better situation now than we had a year ago when it comes to competition.



Erik Moberg
Analyst | ABG

Understood. Just one more question from me. Just on Ontario, I believe that's an option that's still not really priced into anyone's estimates at the moment. If you could just give some more flavor there on the outlook and whether or not you think you will be up and running from day one there.



Kristian Nylén
CEO and Co-Founder | Kambi

I hope so. Well, that's always our ambition to be up and running first in the state. I would say that we probably have a few customers already that will be very interested in the Canadian market, and I also think there is a few very interesting opportunities for new customers in Ontario. I'm looking very positive to that.



Erik Moberg
Analyst | ABG

Got it. Just in regards of your potential position within that market, do you expect a similar market position as in U.S.?



Kristian Nylén
CEO and Co-Founder | Kambi

Possibly, as I said, even stronger. I think we are quite unique in having a customer base where In-Play is so important already. We are in a very strong position.

**Erik Moberg**
Analyst | ABG

Understood. Thank you very much. That's all from me.

**Kristian Nylén**
CEO and Co-Founder | Kambi

Thank you.

**Operator**

I remind you that if you want to ask a question, you will have to press zero one on your telephone keypad now. We have a question from the line of Viktor from Danske Bank. Please go ahead.

**Viktor Högberg**
Analyst | Danske Bank

Hi. Good morning. Follow up on Q3. The rest of the sports schedule now in August and September, do you think it could mitigate the effects of DraftKings leaving on the turnover in Q3?

**David Kenyon**
CFO | Kambi

I think that's quite a tough challenge, to be honest. DraftKings has become a big proportion. I talked about 20%-30% of our revenue. That disappearing at the end of Q3 is a tough one to overcome. I've talked about the tailwinds. It's really hard to say, we're looking slightly longer term as well than just Q3, Q4. If you look at all these new regulations coming in place, we're really looking at where this takes the business in 2022, 2023, it's looking very strong.

**Viktor Högberg**
Analyst | Danske Bank

I agree. Staying a bit short-term focused here. Yes, for next question as well, with just Virginia and New York left for DraftKings to leave then now in Q3, would it be reasonable to expect the Q4 turnover level to be higher than the Q3 level because there won't be that much to drop off?

**David Kenyon**
CFO | Kambi

Yeah, if you're looking purely at the turnover index rather than the revenue side, yeah, absolutely. As Kristian talked about, you get the three full months of the full fat sporting calendar with October through December. Yeah, on that basis, yes. Turnover should be higher.

**Viktor Högberg**
Analyst | Danske Bank

Okay. In terms of the high margin here in Q2, I assume it was seen mainly in the late parts of the quarter in Euro matches, which explained it. Do you think it had an effect on turnover, or was it too late in the quarter to have a material effect on the turnover in Q2?

**Kristian Nylén**
CEO and Co-Founder | Kambi

Yeah, I can answer first maybe. I think it was high margin all over the place, really, when it comes to soccer. I think the Champions League was very high margin. The end of the season in most of the large leagues was very high margins. For the Euros, actually, I would say that we probably didn't see that effect that much because it was quite poor margins up until the end of the group stage, really. For the Euros, not so much that effect, but for the rest of the soccer, I would definitely say that the margin dampened the numbers a bit.

**Viktor Högberg**
Analyst | Danske Bank

Okay. Sorry, I was muted. It did have an effect then on the Q2 turnover, the high margin?

**Kristian Nylén**
CEO and Co-Founder | Kambi

Yes, absolutely.

**Viktor Högberg**

Analyst | Danske Bank

Okay. Last question. The cost guidance, you raised it slightly now in Q3. What is the driver for that, and what will be taking it to the high and the low level, respectively?

**David Kenyon**

CFO | Kambi

Yeah, the biggest driver really has been a huge acceleration in licensing, which we've seen even just during the last quarter, which is why we've raised the guidance since we did the Q1 report. If you look now, there's new regulation in Arizona, Maryland, Louisiana. All of which is, for us, driving application processes and regulatory support costs locally. You have the New York application and that whole new regulation that's come out. Ongoing, which has been ongoing for a while, but it's really sped up in the last quarter, is the Nevada licensing application, which is a quite longer process and also quite an expensive process. That work on that has really accelerated recently. I think all those combinations together have brought extra costs, but also, of course, a much bigger revenue opportunity longer term.

**David Kenyon**

CFO | Kambi

Yeah, there is cost associated with that and probably more states regulating than we anticipated. Yeah, good reasons for spending, hopefully.

**Viktor Högberg**

Analyst | Danske Bank

What is the reason for the EUR 5 million between the top end and the low end? What would be more reasonable to expect at this point in time?

**David Kenyon**

CFO | Kambi

I would say somewhere between the middle and the top.

**Viktor Högberg**

Analyst | Danske Bank

Okay, perfect. I was having a bit of problem with my connection. Maybe you already talked about it, but could you talk us through a bit about the New York application now that you have a bit more details than the last time we spoke? If you could help us understand what is happening in New York and how you see it.

**Kristian Nylén**

CEO and Co-Founder | Kambi

I think it's still a little bit fluid. I think we received answers on the first round of questions on the RFA yesterday night. It's quite clear that we are in a good position to be a platform provider for our operators. I think the scoring system looks quite promising for us and our operators. It is a bid, so nothing is given, of course. I am quite certain that we will have some operators who are going to bid together with us. Can't give you very much more than that, but it looks optimistic.

**Viktor Högberg**

Analyst | Danske Bank

Okay. Thank you very much.

**Operator**

There are no further questions for either. I hand back to the speakers for any closing remarks.

**Kristian Nylén**

CEO and Co-Founder | Kambi

All right. Thank you very much for today. We will be back on the October 27th for our third Q3 quarterly presentation. Thank you very much.