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Kambi Group

Q1 2021



Speakers



David Kenyon
CFO | Kambi



Erik Moberg
Analyst | ABG



Kristian Nylén
CEO | Kambi



Operator



Viktor Högberg
Analyst | Danske Bank

Prepared Remarks

**Kristian Nylén**

CEO | Kambi

Good morning, welcome to Kambi's First Quarter Results Presentation. I am Kristian Nylén, Chief Executive, and joining me is our Chief Financial Officer, David Kenyon. Please turn to slide two. I'll begin with a brief overview of what was another impressive quarter across the board. David will take you through our financial performance. I will speak about the quarter in a little bit more depth and look ahead to a busy sporting calendar this summer. First, on slide three, let me give you a brief introduction to Kambi. Kambi is the industry's trusted and independent sports betting supplier. Our multi-channel service is managed through an in-house developed platform, which has been continuously developed over the last decade. The platform, together with more than 900 highly skilled staff, forms the foundation of our service.

**Kristian Nylén**

CEO | Kambi

The Kambi Sportsbook consists of multiple elements, from front-end user interface and open APIs, through to odds compiling, customer intelligence, and risk management, enabling our customers to offer their players a tailored and leading sportsbook experience from day one. On to slide four. Kambi's business is built upon a revenue share model, with our growth linked to our partners' success. The foundation of our strategy is based on scalability. At no additional cost to our partners, Kambi continuously invest in product, people, and technology to maintain market leadership. We operate an experienced in-house trading and risk management team to optimize operator trading margin. Our business is underpinned by our corporate probity and integrity, and we have successfully obtained all the licenses we have applied for. All these combined enable us to offer our partners the flexibility and scalability required to succeed in today's highly regulated and global market.

**Kristian Nylén**

CEO | Kambi

Our technology has been structured in a way that enables Kambi and its partners to quickly and efficiently comply with regulatory requirements, removing a major barrier to market and allowing them to enter new markets as and when they require. Kambi is a trusted partner of more than 30 operators across the six continents, including some of the most recognizable and successful brands in the industry. Together, they create a powerful network of operators, which combine to generate powerful data insight that we use to inform and continuously iterate our product and services. Let's look at the highlights on slide five. Q1 was another record quarter for Kambi. Operator turnover reached an all-time high, exceeding the thousand mark on the index for the first time, thanks predominantly to an increase in basketball and in particular college basketball and the March Madness tournament, as well as various launches in new states.

**Kristian Nylén**

CEO | Kambi

Revenue was up 55%, while operating margin was again a very healthy 43%, underlining the scalability within our business model. Our U.S. and global expansion continued, with launches in states including Michigan and Virginia online and Arkansas in retail. In the process, registering the 14th U.S. state in which we are live. We also made our debut in Argentina with Casino Magic. As previously communicated, we signed two new partners during the quarter, with Racing and Wagering Western Australia joining Casino Magic by partnering with Kambi in January. For now, I'll hand over to David, who will take you through the financial highlights, turning to slide six.

**David Kenyon**

CFO | Kambi

Thank you, Kristian. Good morning, everyone. In Q1, we had revenue of EUR 43.2 million, up 55% on last year. Operating costs for the quarter were EUR 24.5 million, giving an operating profit of EUR 18.7 million at a margin of 43%. The net cash position at the end of March was EUR 70.7 million. Let's look at the income in more detail. Turning to slide seven. This slide sets out the Kambi turnover index, with the graph showing the aggregated results of Kambi's operators. The turnover is the total stakes placed with the operators by their end users. In Q1, operator turnover was up by 109% on Q1 last year.

**David Kenyon**
CFO | Kambi

At this point, I should note that for all comparatives to last year that I mention today, the final two weeks of Q1 2020 saw the early impacts of the pandemic on the sporting calendar, which obviously limited the levels of activity at the tail end of that quarter. The steep growth we've seen in operator turnover reflects the growth of the markets in various U.S. states, such as Pennsylvania, New Jersey, and Indiana, the opening up of new states in the last year, such as Illinois, Colorado, Michigan, and Virginia, and the busy sporting calendar. This included most of the March Madness college basketball tournament, all the main European soccer leagues, and the conclusion of the NFL season. The margin represents the combined trading margin made by the operators. In Q1, this margin was 8.5%. You can see the splits of operator GGR by region on slide eight.

**David Kenyon**
CFO | Kambi

Q1 saw continued growth in operator GGR in the Americas region, with 63% of the total. In particular, Q1 saw us launch for the first time in Virginia, Arkansas, and Michigan online. In January, 888 migrated the majority of its business away from the Kambi platform. Despite this, we saw growth in the European part of the business, with operator GGR up by 15% on the same quarter last year. You can see the conversion from the movement in operator turnover to our revenue on slide nine. Operator turnover post-foreign exchange impact was up by 109% compared to Q1 2020. The operator trading margin of 8.5% compared to 9.3% last year. The increase in operator GGR was 92%.

**David Kenyon**
CFO | Kambi

In the other column, we see the marked effect from the rapid growth in operator NGR in terms of decreasing the effective commission rates charged to our operators due to the tiered structures in many contracts. The net effect is that revenue for Q1 2021 is up by 55% from Q1 last year to EUR 43.2 million. Let's turn to the full income statement on slide 10. Operating expenses for the first quarter were EUR 24.5 million, up from EUR 21.1 million in Q1 last year. Looking ahead to Q2, we anticipate costs will be in the range of EUR 25.5 million-EUR 26.5 million. The operating profit for Q1 was EUR 18.7 million, up from EUR 6.8 million in Q1 last year. The results this quarter continue to demonstrate the scalability in the business model.

**David Kenyon**
CFO | Kambi

While costs grow in a controlled manner as we continue to build out the company's product capabilities and commercial reach, the large majority of the cost base is not directly impacted by an increase in revenue. When revenues go up, as we saw to such a great extent here in Q1, the inherent operating leverage results in increased profitability. The profit after tax for Q1 was EUR 15.1 million, up from EUR 4.8 million. Let's look at the cash flow on slide 11. Our opening cash balance was EUR 60.8 million. The significant cash inflow from our operating profit translated into a major increase in our cash balance in the quarter. Capitalized development costs in the quarter were EUR 4.5 million, whilst the amortization charge on previously capitalized costs was EUR 3.6 million. The net cash inflow for the quarter was over EUR 17 million, and our closing cash balance, EUR 78.1 million.

**David Kenyon**
CFO | Kambi

This gives us a powerful position from which to benefit from our balance sheet, giving us the ability to be opportunistic if growth possibilities arise. In summary, we saw strong revenue performance in Q1, and the company's operating leverage delivered a significant increase in profitability. Now let me pass you back to Kristian. Turning to slide 12.

**Kristian Nylén**
CEO | Kambi

Thanks, David. If anyone was in any doubt over the popularity of March Madness tournament and the U.S. college sports in general, this slide should go some way to remove those doubts. For those not aware, March Madness is an annual U.S. college basketball playoff tournament, which was unfortunately postponed last year. Its return this year provided a boost to operator turnover, and saw college basketball become the number one driver of turnover during the quarter. In fact, in Q1, college basketball generated as much turnover as the NFL and NBA combined. While some of the final games were played in April, March Madness turnover exceeded both the 2018 World Cup and last season's NBA playoffs, with our partners offering a top-class outright pre-game and live product. As you can see from the graphic, the number of games played compares well with those other tournaments. Turning to slide 13.



Kristian Nylén

CEO | Kambi

As mentioned earlier, we continued to support our partners' expansion plans with timely rollouts. During the quarter, this included going live with Casino Magic in the Argentine province of Neuquén, Arkansas becoming the 14th U.S. state to go live when launching with Churchill Downs at the Oaklawn Racing Casino Resort, launching five partners into the new online Michigan market, with four on the same day, and supporting two partner launches in Virginia. In addition to these, we also supported the online launch of Barstool Sportsbook in Illinois and further Churchill Downs online and retail launches. Turning to slide 14. The partner launches have continued into Q2. Just last week, we supported a trio of online launches for Churchill Downs and its TwinSpires brand. The three launches over four days took place across Indiana, Pennsylvania, and Colorado, and ahead of this weekend's iconic Kentucky Oaks and Derby.



Kristian Nylén

CEO | Kambi

As a horse racing-led brand, the Kentucky Derby provides a great opportunity for TwinSpires to attract and cross-sell players to its new sportsbook product. The launches see the TwinSpires sportsbook available online in five states, adding to the earlier launches of Michigan and Tennessee. Of course, additional launches are planned in the future. Moving to slide 15. We often talk about partner launches, and this is due to the fact we are proudly prolific in this area. At Kambi, we see the expansion of our partners as being central to our growth story. The better we are at providing our partners with a platform for growth, the better the results for all concerned. I believe Kambi has repeatedly proven itself to be the trusted sports betting partner, highlighted here by our track record in partner launches.



Kristian Nylén

CEO | Kambi

Since the start of 2020, Kambi has, on average, enabled a partner launch every single week across many different jurisdictions and regulations across the world. This record is no coincidence and is testament to internal capability we have built throughout vast experience over many years. Whether that's through our technical flexibility or product and regulatory compliance, or our operational excellence, we have shown time and again that partner integrations and launches need not to take a long time to complete. What's more in this has largely taken place during a period of travel restrictions, which has made retail launches a little bit more problematic. However, last year, we were able to develop a remote launch process, meaning Kambi staff wouldn't have to be present on property, essentially giving our partners the capability and freedom to manage their own launches at the time which suits them best. Turning to slide 16.



Kristian Nylén

CEO | Kambi

The sporting calendar very much dictates how our partners interact with their players. As we found last year, fewer sports means less revenue. Some of the major events we saw postponed last year we'll see taking place over the coming months, which in many ways have created a special summer of sports for this year. There is a lot on this page, and I won't go through it all, but as you can see, the calendar looks particularly busy, and this only gives a flavor of what's to come throughout the rest of the quarter and into Q3. The highlight from an operator turnover perspective is likely to be the Euros, which I'll talk more about in a moment.



Kristian Nylén

CEO | Kambi

One specific weekend I'm looking forward to is July 10th and 11th, where you see both the finals of the Euros and Copa América, as well as the Wimbledon final, not to mention the NBA playoffs. Of course, while the summer months featuring many summer tournaments have historically been the highlight of a year in terms of turnover, Kambi's recent growth in the United States now means a much higher bar has been set throughout the rest of the year, particularly during Q1 and Q4 quarters. Nevertheless, for sports fans, particularly those in Europe, there will be no shortage of betting opportunities to look forward to. Turning to slide 17. The European Championship is probably the highlight of the summer, at least for European betting perspective. The event is being staged across Europe for the first time, which could work to increase interest in the tournament.



Kristian Nylén

CEO | Kambi

Major soccer tournaments have historically been fantastic player acquisition opportunity for operators. For example, the 2018 World Cup attracted more than two-thirds of first-time bettors during the tournament, with around 90% of those going on to place a second bet. The tournament also coincides with Copa América, giving soccer bettors a full menu of games throughout the day. We believe this will see additional interest in our Bet Builder product by allowing players to combine multiple selections from different games, including player props into a single bet. In general, Kambi offers a fantastic soccer product across pre-match and live. Combined with our advanced price differentiation and marketing capability, our partners can be confident of providing their players with a top-tier experience during these important competitions. Moving to slide 18. To summarize, Q1 was another fantastic quarter for Kambi.



Kristian Nylén

CEO | Kambi

We have a record operator turnover and continuing to demonstrate the scalability of our business model. We continue to sign new partnerships and expand with our existing partners, setting the standard for new market launches. When combined, this ongoing success means we have further strengthened our balance sheet, providing us with even greater opportunity to grow, to expand, and to ultimately provide an even better service to our partners. Now, I will pass over to the operator for questions. Thank you.

Q&A

**Operator**

Thank you. If you do wish to ask a question, please press zero one on your telephone keypad. If you wish to withdraw your question, you may do so by pressing zero two to cancel. Our first question comes from the line of Erik Moberg from ABG. Please go ahead.

**Erik Moberg**

Analyst | ABG

Hi, thanks for taking my questions. To start off, if we just look at the turnover and we just divide it up on a regional basis, you have Europe, Americas, and then other. Could you perhaps elaborate a bit on the start of Q2 versus the end of Q1 for each region?

**Kristian Nylén**

CEO | Kambi

Sorry, I was muted. I think you will see now the calendar in U.S. is slowing down a little bit. I think what you will see with Q2 is certainly a stronger quarter for Europe than for U.S. Latin America is more in line with the European betting pattern.

**Erik Moberg**

Analyst | ABG

Got it. While we're on the subject, as you mentioned, U.S. did have a negative seasonality effect there in Q2. How should we think in terms of the dynamics here? Because Europe obviously will see a boost from the French Open in tennis and the European Championship in soccer. If we think about how this would translate for the full group, do you still think that you could maintain the current turnover level and an extension of revenue going into Q2?

**Kristian Nylén**

CEO | Kambi

I would guess that we are peaking in Q1, and we'll have slightly lower turnover in Q2. It is a little bit uncharted territory for us with what will happen in a year with a big soccer tournament at the same time as the U.S. being as dominant market for us.

**Erik Moberg**

Analyst | ABG

Got it. Looking into the second half of the year, the potential launch there in October in Netherlands with JVH group. Could you perhaps elaborate a bit on what sort of position you think they can grab within that market?

**Kristian Nylén**

CEO | Kambi

They are a very strong retail brand. We have seen both very good transitions from retail into online, and we have seen not so great. It's way too early for me to have a good insight into that area.

**Erik Moberg**

Analyst | ABG

Got it. Just hypothetically speaking, do you think that they could have a similar impact as ATG had in Q1 2019?

**Kristian Nylén**

CEO | Kambi

No, I would be very surprised on them starting that high. You have to remember that ATG was a very strong online brand in other gaming verticals.

**Erik Moberg**

Analyst | ABG

Fair enough. Just looking at the Americas, the division continues to increase substantially. We're naturally all aware about your U.S. position. Could you perhaps elaborate a bit on Latin America and the drivers there? Is it still primarily Corredor in Colombia, or are there any other actors that are behind the ramp-up in growth?



Kristian Nylén
CEO | Kambi

I would say we have two partners that are quite strong in Colombia. Corredor, of course, is a market leader, but I think Rush is doing quite well as well. That is definitely the majority of the revenues at the moment. Colombia is the only market that really has been regulated so far, and we expect to see great things to come in Argentina going forward now, and hopefully Brazil.



Erik Moberg
Analyst | ABG

Fair enough.



Kristian Nylén
CEO | Kambi

in the future.



Erik Moberg
Analyst | ABG

Fair enough. Thank you very much. That's all from me.



Kristian Nylén
CEO | Kambi

Thank you.



Operator

The next question comes from the line of Viktor Högberg from Danske Bank. Please go ahead.



Viktor Högberg
Analyst | Danske Bank

Hi, good morning. A follow-on question on the turnover index. You commented on the Q2 level potentially being a bit lower than Q1 and due to the now higher U.S. exposure. What about Q3? With the sporting calendar looking at it as currently, do you expect a sequential uptick in Q3 over Q2, or to remain at roughly the same levels or below?



Kristian Nylén
CEO | Kambi

I guess this will depend a little bit also on the DraftKings, how they are transitioning to their own sportsbook. Of course, we have revenues coming from there up until September, those revenues, if it's transitioned, will not have any impact on the turnover index. All things equal, I would say that we would definitely think that Q3 will be on a lower level than Q1. It's only really September where you have a strong U.S. sports month in Q3, I think Q4 will really ramp up again.



Viktor Högberg
Analyst | Danske Bank

Yeah. Okay. On the OpEx guidance, you reiterated for the full year, start out now in Q2. What could change the OpEx outlook for this year? Upside or downside?



David Kenyon
CFO | Kambi

Hi, it's David. Obviously, there's an element we've highlighted in the past has been the variable cost related to our options program, but I think that's probably the one really variable cost is, I think, share price. That's the one that could potentially swing it up or down. Yeah, apart from that, I think the cost is quite foreseeable from that perspective. Yeah, probably towards the top end of that guidance. Yeah, we're still happy with that guidance for now.



Viktor Högberg
Analyst | Danske Bank

In the cost mix, could you elaborate a bit about the drivers there? You're continuing to hire a lot of people. Do you think that will plateau somewhat, or do you expect to continue adding 50, 60 people year-over-year, or also down the line during the end of this year, or what to expect in terms of hirings?



David Kenyon
CFO | Kambi

Yeah, I'd say for the foreseeable future, we will continue hiring at that kind of level. Obviously, we paused recruitment for around a year during the height of the pandemic. Yeah, we're kind of catching up now to where we were expecting to be previously. Yeah, for now we are recruiting.



Viktor Högberg
Analyst | Danske Bank

Okay.



David Kenyon
CFO | Kambi

We'll see where that goes after the fourth quarter.



Viktor Högberg
Analyst | Danske Bank

Yeah, sure. With 888 rolling off majority of their revenues from you now, how much did that affect Q1? Could you comment on the revenue effect or operator turnover effect?



David Kenyon
CFO | Kambi

We can't give an exact number, to be honest, for confidentiality reasons with our partners. Yeah, from our perspective, it's very pleasing that we can deliver such great results despite the loss of the majority of that business. That's all I can say, really.



Viktor Högberg
Analyst | Danske Bank

Okay. Final question from me. We got a bit cut off for me, so I don't know if you already talked about it, but what do you make of the New York movements and what do you expect now that we've got a bit more details on it?



Kristian Nylén
CEO | Kambi

I think it's still well too early to give any big predictions. From what's made out of the last answers we have got, it's still very unclear. It just says it's a minimum two platforms. I think from that perspective, a platform seems now to be defined as where the bet placement is done which means that would sit in our technology. That is very interesting to us. How many platforms there will be, two or three is probably the likely number, and how many skins it can be on each platform is still very unclear. I think we have an okay position here, but it's way too early to guess.



Viktor Högberg
Analyst | Danske Bank

Okay. Will you submit anything ahead of the 1st of July deadline? Is that also?



Kristian Nylén
CEO | Kambi

On, yeah.



Viktor Högberg
Analyst | Danske Bank

Okay. Last question from me. U.S. or Americas now is 63% of revenues. How much of that is U.S.?



David Kenyon
CFO | Kambi

The large majority, I can say.



Viktor Högberg
Analyst | Danske Bank

Well above half of revenues?

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David Kenyon
CFO | Kambi

Yeah, that's fair.



Viktor Högberg
Analyst | Danske Bank

Okay. Thank you very much.



Operator

As there are no further questions, I'll hand it back to the speakers for any closing remarks.



Kristian Nylén
CEO | Kambi

Thank you very much for your question and for listening in. We look forward to updating you on the 23rd of July when we publish our second quarter report for 2021.