

April 24, 2020

## **Kambi Group**

Q1 2020



## Prepared Remarks

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Speakers, please begin.



Good morning, welcome to Kambi's first quarter result presentation. Please turn to Slide 2. I'll begin with a brief overview of Q1, after which David will take you through our financial performance. I will speak about the quarter in a little bit more depth, including our response to the pandemic. First, on Slide 3, 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 850 highly skilled staff, forms the foundation of our service.



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 the leading sportsbook experience on the market 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 licenses we have applied for.



All of this combined enable us to offer our partners the flexibility and scalability required to succeed in today's highly regulated and global market. 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 the trusted partner to more than 20 operators across 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 treat our product and services. Let's look at the Q1 highlights on Slide five.



Despite the absence of many sports and leagues in the second half of March, we still managed to post a strong Q1 performance, with operator turnover up 27% year-on-year at a trading margin of 9.3%. This led to Kambi revenue of EUR 27.9 million, an increase of 33%. Without the impact of the coronavirus on the sporting calendar, I'm confident we would have been looking at another record quarterly report performance, with operator turnover index in the region of 600. To give you some idea of our momentum, average daily operator turnover for the quarter up to the 12th of March when the sports began to be impacted was up 47% year-on-year and 7% sequentially. That is with a very high margin, which suppressed the turnover. Our business continued to go from strength to strength.



During the quarter, we processed the first legal sports bet in the states of Illinois and Michigan, clocking up our 10th U.S. state in the process. Our fantastic record in the U.S. often goes under the radar, but we have proven ourselves to be the partner to be trusted online and on property, and I'll give you some more color on this later. Added to this, in the event of the Q1, the combination of DraftKings and SBTech received shareholder approval yesterday. We don't really have anything to add at this point, only to say Kambi remains well-positioned for the long-term growth, and we will continue to serve DraftKings with the same technology and services that has enabled it to take a leading position in multiple U.S. states. For now, I will hand over to David, who will talk you through the financial highlights. Turning to Slide 6.



Thank you, Kristian. Good morning, everyone. In Q1, we had revenue of EUR 27.9 million, up 33% on last year. Operating costs for the quarter were EUR 21.1 million, giving an operating profit of EUR 6.8 million at 25%. The cash flow for the quarter, excluding working capital movements, was plus EUR 4.1 million. The net cash position at the end of March was EUR 39 million. Let's look at the income in more detail. Turning to slide seven. This slide sets out the Kambi turnover index. The graph shows 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 27% on Q1 last year.



Until the 12th of March, when the impact of COVID-19 on the sporting calendar took most effect, the average daily operator turnover was actually up by 47% compared to the equivalent period in Q1 2019, before falling significantly in the last few weeks of the quarter. The margin represents the combined trading margin made by the operators. In Q1, this margin was 9.3%, buoyed by favorable results in some of the major European football leagues. It's worth noting that this high margin is also likely to have suppressed the level of turnover in the quarter. We can see the conversion from operator turnover growth to our revenue growth on slide eight. Operator turnover was up by 27% compared to Q1 2019. The operator trading margin, multiplied by the turnover, generates the operator's gross gaming revenue or GGR.



The operator trading margin of 9.3% compares to the 7.8% we saw last year. Overall, this led to an operator GGR increase of 51% year-on-year. Kambi's commission is based on a percentage of the operator's net gaming revenue, which is after the deduction of gaming tax and certain marketing incentives. This tax impact has increased, reflecting the increase in the part of our business coming from locally regulated markets, in particular the U.S. In total, 79% of our revenues came from locally regulated markets, compared to 71% last year. The impact of the fixed part of our revenues and certain volume-related commission tiers is shown in the other column of the graph. This quarter, we've seen the effect from the significantly increased level of operator NGR, which has reduced the effective commission rates charged to our operators due to the tiered structures in some contracts.



The net effect of all these factors is that revenue for Q1 2020 is up by 33% on Q1 last year to EUR 27.9 million. Let's turn to the full income statement on slide nine. Operating expenses for the first quarter were EUR 21.1 million. We continued to invest in building a market-leading sportsbook, as well as the ongoing licensing and development of our commercial operations in the U.S. Operating profit was EUR 6.8 million for Q1 compared to EUR 2.6 million last year. In accordance with IFRS 9, we recognized a one-off bad debt expense of EUR 0.6 million to fully write off the amounts owed by National Lottery AD in Bulgaria, whose operating license was suspended in Q1. After accounting for this exceptional item, profit after tax was EUR 4.8 million for the quarter. Let's turn to the cash flow on slide 10.



Set out on this slide are the major components which impacted our cash position during the quarter. Our opening cash balance was EUR 45 million. Capitalized development costs in the quarter were EUR 4.7 million, whilst the amortization charge on previously capitalized costs was EUR 2.9 million. Our trade receivables increased by EUR 3.3 million, reflecting the increase in the amounts invoiced to operators following particularly strong revenues in February. Most of these February invoices have subsequently been settled in April. The net cash inflow for the quarter was EUR 1.3 million, and our closing cash balance was EUR 46.3 million. With this very healthy balance sheet in mind, let's consider our financial situation in the current environment. Turning to slide 11. The sporting calendar has been severely impacted by COVID-19 since mid-March. We've seen a level of sporting activity driving operator turnover of 25%-30% of where it was earlier in Q1.



As soon as the impact on our revenues became clear, we implemented a comprehensive cost-saving program, resulting in savings across the whole business, including significantly reduced travel and marketing costs, freeze on staff recruitment, and a substantial reduction in pass-through data costs due to fewer sporting events. We also applied for the financial support packages announced by the Swedish and U.K. governments. As a result, total OpEx are anticipated to decrease during Q2 by 20%-25% compared to Q1, with capitalized development costs falling by 20%-30% and remaining at similar levels whilst the current situation continues. Once the sporting calendar resumes and restrictions are lifted, the business will be able to ramp up instantly to ensure its full offering is available from day one with the associated costs.



In the unlikely event that the sporting calendar does not increase from its current level and based on the cost-saving measures taken so far, we would expect the average quarterly cash outflow to be in the range of EUR 7 million-EUR 9 million. Although we anticipate the figure in Q2 to be significantly more favorable for Kambi due to the working capital movement I mentioned previously. With our strong balance sheet and the cost savings we've been able to implement, we believe we are very well-placed to weather the current storm and immediately gear up to normal levels of activity as soon as sports resume. Now let me pass you back to Kristian. Turning to slide 12.



Thanks, David. Although the whole industry is going through a tough period at the moment, we certainly see the light at the end of the tunnel. There are many reasons to feel positive about the future. The sporting calendar will pick up in time. Many postponed events may be rescheduled for a later date, potentially creating a busier sporting calendar than usual. We have also seen increased appetite from regulators to consider, and in some cases expedite online regulation. Many jurisdictions have seen the retail sector badly impacted. Therefore, the prospect of online betting has moved up the agenda. Pure retail businesses are also taking more interest in the potential of online. We expect to see increased regulatory movement over the next 12 months, which, of course, we welcome. I also believe the current challenging period will remind people of the benefits of outsourcing.



The costs associated with running, maintaining, and continuously developing a high-quality sportsbook continue to rise and are only sustainable for a few companies that possess sufficient scale. Therefore, the situation may well prompt those operating a sportsbook without that scale to think carefully about the pros and cons. Turning to slide 13. As I mentioned previously, the quarter began very well for us, both in terms of the numbers and how we continue to increase our footprint in the United States. In January, we launched in West Virginia with Penn National. In February, we launched five retail sportsbooks in Mississippi, also with Penn. In March, just before coronavirus took effect, we took the first legal sports bet in the state of Illinois and Michigan with Rush Street and Penn National respectively. We also launched with Penn in Illinois.



These are two large and important states, both with passion for sports. We look forward to seeing how business develops. We have many more launches in the pipeline and are looking forward to completing these as soon as it's safe to do so. Our record of delivery in the U.S. is unmatched, as I will show you on slide 14. There can be no doubt Kambi has been setting the pace in the U.S. We are active in more states than any other end-to-end sports betting supplier. As you can see on the map, we are now active in 10 states, with Colorado to follow shortly. Within these states, we are online everywhere it is currently possible to be and operate more than 30 on-property sportsbooks, with approximately 600 betting kiosks in operation.



Since our first U.S. retail launch in Q4 2018, we have been opening retail sportsbooks at the rate of around five per quarter. Among these 10 states, we have created eight market firsts through a mixture of first legal bets and first legal online bets, including taking the first legal online bet in the U.S., post-PASPA. This speaks to our operational excellence and reliability to deliver for multiple partners simultaneously. It also reaffirms our strength in regulatory compliance and corporate probity, which enable us to get licensed quickly. Not only is Kambi the trusted partners for operators, but we are highly trusted by regulators, too. Moving to slide 15. Due to the impact on sports, we have had to be flexible to ensure we continue to provide a good service to our partners. On this index graph, you can see the change in which sports have been driving turnover.



The impact on sports and our turnover really began to take effect on the 13th of March, at which point football and a collection of other sports were generating almost all turnover. However, as these leagues and sports were gradually postponed, you can see how the focus shifted to table tennis and esports, which by the end of the quarter, were responsible for a large proportion of the turnover. You can also see from the 16th onwards, our turnover remained relatively stable for the rest of the month, which highlights the great work we have done to provide a good service to our partners and their players during this time. Since the end of the quarter, we have also seen darts emerge as a key contributor to turnover. Turning to slide 16. We see some positive signs that some leagues and tours could return without spectators soon.



While a small number of European football leagues have been cut short, the German league is expected to return behind closed doors within a matter of weeks, with 9th of May, the current target date. All eyes will be on how we handle this, and if successful, we could see many other football leagues follow in their footsteps. For example, the English Premier League plans to finish its season before the end of July, potentially with some games screened on free-to-air. Elsewhere, the PGA Tour recently announced its tour would resume in June, and plans are in progress to get the Major League Baseball season underway as soon as possible. There is certainly some cause for optimism. Turn to slide 17. In summary, Q1 saw Kambi begin the year in the same fashion as we ended the last, with a strong financial performance.



Without the impact of the pandemic, it would have been yet another record quarter. Meanwhile, we have taken steps we think leaves us in a very good position for when sports do return. Reducing costs while protecting staff and the long-term interest of the business. Of course, things are not ideal right now, but we're in a good financial shape. With a resumption of sports and more partner launches, we have a lot to look forward to as we look to regain the momentum seen recently. Now, I will pass over to the operator for questions. Thank you.

## Q&A

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Thank you. Ladies and gentlemen, if you have a question for the speakers, please press 01 on your telephone keypad. Our first question comes from the line of Viktor Hebert from Danske Bank. Please go ahead.



Okay, good morning. I have a question on You said the end of March early pre-revenues were 25%-30% of those in Q1. We saw the development here in end of March, at least with ping pong. Could you elaborate on the trajectory during April versus March? Have you seen the same levels in the beginning of April as you saw in the last two weeks of March, or could you elaborate a bit on that?



Yes. As I said, from 16th of March and up until now, more or less, we have seen quite stable turnover figures throughout the period. I think we have seen a little bit different mix in sports. As I said, darts has become more of a popular sport when it didn't really exist in the first couple of weeks of this pandemic. That has grown a little bit. We have lost a few football leagues on the other hand. It's kind of stable at the moment, and I expect it to be so until we see some major development on some bigger leagues.



Okay. Could you say something about the margins for the sports or for the events that you are currently having odds on? Is there anything special to note there?



No, I don't really want to guide on the margin. It's very early into the quarter as well. What I can say is it's more live betting proportionally than it was before. For that reason, we would expect a slightly lower margin.



In the report, you said that in the event of events not returning, you see costs down 5%-10% year-over-year in 2020, and I assume that would be in the worst-case scenario. What is the base case for cost development? You have guided for Q2, should we expect flat costs for 2020 over 2019 if we would have Bundesliga returning in May and the events that you mentioned, if that materializes? Is flat OpEx or OpEx up, OpEx down? What do you expect for base case for this year?



As David said, I think we really have to play that one by ear as and when we get some facts about when things are coming back. We know what OpEx would have been if this hadn't happened. We know what OpEx will be given the current assumptions. I think anything else is just pure speculation. I think we just need to wait till we see some resumption, and then we can give some further guidance at that point.



Okay. Thank you. That's it for me.



The next question comes from the line of Marlon Varnik from Pareto Securities. Please go ahead.



Hi, good morning. Marlon here. Question regarding the market. You mentioned in the report that America share of the group revenue is 37%. What part of the Americas is the U.S. revenue?



We didn't really guide on that much last time. It is still the same as in Q1. Majority is coming from the U.S., but we have a strong foothold in Latin America and especially Colombia as well. That's a large chunk of the revenues as well.



Okay. You mentioned also in the Q4 report that DraftKings of the U.S. GGR is roughly 50%-60%. What's the number for Q1?



Yeah, still roughly in the same ballpark.



All right. Regarding coronavirus and the legalization process in U.S. sports betting, have you noticed any impacts from coronavirus in terms of the legalization process of sports betting in the U.S.? Is it less prioritized or more given the tax revenue income?



I think we hear voices that it's becoming higher up on the agenda. We have already seen a few states that actually are start talking about it. At the same time, I would say, with the current situation, regulators are also working at home. First, of course, it is to run the day-to-day business. I think you will see some states expedite before the end of the summer. So far, I can't give you any concrete examples. It's more rumors.



Mm-hmm. All right. As you mentioned already, yesterday that DraftKings SBTech merger was approved by the shareholders. Given the severe cybersecurity attack on SBTech a few weeks ago, can we expect, or is it reasonable to assume some delay in the timeline of integration of SBTech DraftKings? You can give a comment here, please.



It's probably something you should ask DraftKings rather than us, to be honest. I can't really comment on that.



All right. The last question regarding the competition in the market, Betsson is now having a B2B offering and Pinnacle Sports, probably one of the sportsbooks with the most sharp money action, have a B2B solution about one and a half year ago. What can you say of the competition in the market, and how are you dealing with it now and going forward?



I think if anything, the examples you mentioned, it will probably take some time before they can be considered a competitor to us. On the other hand, and more importantly, I would expect SBTech's competitiveness to be severely weakened by being owned by DraftKings. If anything, I would say it looks more positive now than it has done historically.



All right. You would say that Pinnacle B2B solution is not fully ready for the market? Because what I've heard that they have quite a few clients already and quite good flexibility in the offering.



Yeah. I can't tell you. I haven't seen them in any of the competitive bids where we have been involved so far at least.



All right. Thank you. Over and out.



The next question comes from the line of Erik Lögdberg from ABG. Please go ahead.



Hi, guys. If some of the soccer leagues were to start up again in late May, beginning of June, such as Bundesliga and Premier League, how much ballpark numbers do you think that this would add to the current sportsbook activity?



To be honest, Erik, it's impossible to say. As you can see on how big table tennis become from being virtually nothing for us. Just getting a few big leagues, it can be enormously big. You need some frequency as well to get the turnover up. You need more than one league, I would say, to really get some big movements of the turnover. What can I guess? I think you would struggle even in the autumn to see a lot of international tournaments. I struggle to see that traveling can return to normal. Champions League, the tennis tour may be heavily impacted by that. I think a reasonable guess for autumn is probably somewhere that we will be back to 50%-75% of normal turnover.



Okay. Thank you. Fair enough. In terms of PENN Entertainment, has the COVID-19 outbreak changed the planned rollout for their mobile brand, or is the timeframe still the same?



From what we know, it's definitely the same timeframe.



Thank you. In regards of the pipeline of new customers, if you compare your situation right now versus one year ago, would you perceive you to be in a better position as of right now, even though you have the headwinds from COVID-19?



It's pretty much the same. Obviously, some of the really big opportunities, like Penn, we have signed already, so that's off the table now. Yeah, I think we have some really good leads at the moment. Even if we can't meet the best prospects physically, I think sales is actually going on pretty much as usual.



Got you. In regards of Argentina and Buenos Aires, if I recall correctly, Sun International, they purchased a casino property in Argentina two years ago. Could they, in theory, launch a mobile brand there?



Yeah, in theory, I think everyone can launch. They need to acquire one of the licenses, of course.



It's not something that you have discussed with them, a rollout in Argentina?



Not at the moment, no.



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



Thank you.



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



All right. Thank you for your questions and for listening in. We will look forward to updating you on the 24th of July 2020, when we publish the second quarter report.



Thank you.

