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## **Kambi Group**

Q3 2019



## Speakers



**Christian Hellman**  
Analyst | Nordea



**David Kenyon**  
CFO | Kambi Group



**Erik Moberg**  
Analyst | ABG



**Kristian Nylén**  
CEO | Kambi Group



**Lars-Ola Hellström**  
Analyst | Pareto Securities



**Operator**



**Viktor Högberg**  
Analyst | Danske Bank

## Prepared Remarks

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### Operator

Ladies and gentlemen, welcome to the Kambi Group Q3 Report 2019. Today, I am pleased to present Kristian Nylén, CEO, and David Kenyon, CFO. For the first part of the call, all participants will be in listen-only mode, and afterwards, there will be a question-and-answer session. Speakers, please begin.



### Kristian Nylén

CEO | Kambi Group

Good morning, and welcome to Kambi's third quarter results presentation. I am Kristian Nylén, Chief Executive, and joining me is our CFO, David Kenyon. Please to slide two. In a moment, I will give you a brief overview of the quarter for Kambi, after which David will talk you through the numbers. I will then speak about the quarter in a little bit more depth. First, on slide three, let me give you a brief introduction to Kambi. Kambi is a premium turnkey sports betting service offered on multiple channels, including web, mobile, and retail. Our service is managed from an in-house developed platform, which has been continuously developed over the last decade. The platform, together with more than 800 highly skilled staff, forms the foundation of our service.



### Kristian Nylén

CEO | Kambi Group

The Kambi Sportsbook consists of multiple elements, from front-end user interface and open APIs through to odds compiling, customer intelligence, risk management, and managed services, 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 operators' success. The foundation of our strategy is based on scalability, and the majority of our cost base is fixed. At no additional cost to the operator, 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, and our business is underpinned by our corporate probity and integrity. We are publicly listed and have successfully obtained all licenses we have applied for.



### Kristian Nylén

CEO | Kambi Group

All of this combined enable us to offer operators 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 a myriad of regulatory requirements, removing a major barrier to market, and allowing them to enter new markets as and when they require with a high-quality and localized sportsbook. In total, we power more than 20 operators across six continents, including some of the most recognizable and successful brands in the industry. Together, we create a powerful network of operators. This model enables Kambi, for instance, aggregate and analyze all data produced across the network, which guides and informs our product development, ensuring we maintain market leadership.



### Kristian Nylén

CEO | Kambi Group

The network effect also contributes to trading and risk management, with our global coverage feeding into delivery of sharper and more accurate prices. With each and every operator added to the Kambi network, the benefits are felt by all, and it's a major reason why our operators have been able to grow and become market leaders. Let's look at the quarterly highlights on slide five. In Q3, we posted revenues of EUR 23 million, a 12% year-on-year increase. Despite the quiet sporting calendar, operator turnover was up 23% at an operator trading margin of 8.5%. Importantly, operator turnover picked up significantly during the period, in line with the start of the football and American football seasons. To the extent, September was comfortably the best month in our history, contributing 38% of the operator turnover in Q3.



### Kristian Nylén

CEO | Kambi Group

We signed two new customers in Penn National Gaming and JACK Entertainment, who I will speak about in more detail later. In total, we launched sportsbooks in seven casinos in the U.S., including taking the first legal sports bet in New York with our partner, Rush Street, and launching on day one of the Iowa and the Indiana markets going live. Later, I will touch on our activity so far in Q4, which includes taking the first legal online bet in Indiana as we continue to set the pace in the U.S. Now I hand over to David Kenyon, who will talk you through the financial highlights. Turning to slide six.

**David Kenyon**  
CFO | Kambi Group

Thank you, Kristian. Good morning, everyone. In Q3, we had revenue of EUR 23 million, up 12% on last year. For the first nine months, revenue was EUR 65.6 million, up by 20%. Operating costs for the quarter were EUR 19.6 million, giving an operating profit of EUR 3.4 million at 14.9%. Year to date, operating costs are EUR 57 million, and operating profit is EUR 8.6 million at 13%. Our cash flow for the quarter, excluding working capital movements, was EUR 2.6 million, and the net cash position at the end of September was EUR 34.2 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.

**David Kenyon**  
CFO | Kambi Group

In Q3, operator turnover was up by 23% from Q3 last year, including underlying growth from existing operators and from new operators in the U.S. and Sweden in particular. This growth is despite Q3 last year, including the final 14 matches of the 2018 Football World Cup, which contributed 7% of the operator turnover and 11% of the gross gaming revenue or GGR in that quarter. Excluding this World Cup effect, operator turnover growth was 33%. In years with no Football World Cup or European Championship, Q3 typically experiences seasonality effects with a relatively quiet sporting calendar in July and the start of August before the major European football leagues and NFL season start later in the quarter. We saw this in Q3 with 38% of the quarter turnover coming in September. The margin represents the combined trading margin made by the operators. In Q3, this margin was 8.5%.

**David Kenyon**  
CFO | Kambi Group

The operator trading margin fluctuates in the short term due to the outcome of sporting events with the highest betting volumes and value. We can see the conversion from operator turnover growth to our revenue growth on slide eight. Operator turnover was up by 23% compared to Q3 2018. The operator trading margin, multiplied by the turnover, generates the operator's GGR. The operator trading margin of 8.5% compares to the 8.6% we saw last year. Overall, this led to an operator GGR increase of 21% 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 significantly, reflecting the increase in the part of our business coming from locally regulated markets, including Sweden and the U.S.

**David Kenyon**  
CFO | Kambi Group

We had a full quarter of retail and online business in Pennsylvania for the first time, where the state tax is 36%, and we also commenced operations in both Iowa and Indiana. In total, 73% of our revenues came from locally regulated markets, compared to 53% last year. The impact to 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 a marked effect from the increased revenues from live event packages, which are fixed and not directly linked to the turnover growth. This effect is increased by the number of new operator signings since Q3 last year. The net effect of all these factors is that revenue for Q3 2019 is up by 12% on Q3 last year to EUR 23 million. Let's turn to the full income statement on slide nine.

**David Kenyon**  
CFO | Kambi Group

Operating expenses for the third quarter were EUR 19.6 million. We continued to invest in building the market-leading sportsbook, as well as the ongoing licensing and development of our commercial operations in the U.S. Our new office in Philadelphia is now operational with 20 staff currently handling some of the risk management on U.S. sports, local customer support, and some of the technical developments for the U.S. market. Looking forward to Q4, as we seek to capitalize on the commercial opportunities we see ahead of us, we anticipate sequential growth in operating expenditure of 3% to 5%. Operating profit was EUR 3.4 million for Q3 compared to EUR 4.2 million last year. The comparative period was boosted by the World Cup, which contributed 11% of GGR for the quarter, directly increasing EBIT for that period. Operating profit for the year to date is EUR 8.6 million.

**David Kenyon**  
CFO | Kambi Group

Profit after tax was EUR 2.3 million per quarter and EUR 5.8 million for the year to date. Let's look at the cash flow on slide 10. Set out on this slide are the major components impacting our cash position during the quarter. Our opening cash balance was EUR 40.4 million. Capitalized development costs in the quarter were EUR 3.4 million, whilst the amortization charge on previously capitalized costs was EUR 2.5 million. Our trade receivables increased by EUR 1.9 million, reflecting the increase in the amounts invoiced to operators. The net cash inflow for the quarter was EUR 1.1 million, and our closing cash balance was EUR 41.5 million. Let me pass you back to Christian. Turning to slide 11.

**Kristian Nylén**  
CEO | Kambi Group

Thanks, David. On August 1st, Kambi signed an agreement with the largest regional gaming operator in North America. Penn National Gaming has tremendous market reach, operating 41 gaming properties across 19 states, amounting to roughly half of the U.S. population. As you can see at the bottom of the slide, eight of those 19 states are already regulated in some form. Other states such as Ohio, Massachusetts, Michigan, and Maine are all progressing towards regulation. Within the space of a few weeks, Penn National was up and running with the Kambi on-property sportsbook in Iowa, and now has a total of five retail sportsbooks across three states, with Pennsylvania and Indiana the other two. The most recent launch was just this week when we replaced Penn National's incumbent supplier at Hollywood Casino in Pennsylvania. The online component will follow next year. There should be no mistaking the ambition of Penn National.

**Kristian Nylén**  
CEO | Kambi Group

They have a great record of venture building, have hired a fantastic team to lead the sportsbook, plan to build their own IP on Kambi's platform, are on record stating their goal to be the market leader in the U.S. Penn National, quite rightly, thought long and hard about their sportsbook strategy, I'm delighted they came to the conclusion their future was best served by partnering with Kambi. Turning to slide 12. While Penn National is a national giant, JACK Entertainment is a local hero and a company where we were always keen to partner with. JACK is a household name in Ohio, one of the most populous states in the U.S. Upon regulation in Ohio, Kambi will power retail sportsbook at JACK Cleveland Casino and JACK Thistledown Racino. JACK, which currently has established online presence in the state, will also launch an online sportsbook.

**Kristian Nylén**  
CEO | Kambi Group

I'm very excited by the potential of JACK and believe it can take a top position in Ohio. The partnership should extend to other states in the near future should attractive opportunities arise. Moving to slide 13. In addition to signing new customers, we also extended deals with two of our current customers. Of course, many of you have seen the contract extension agreed with DraftKings in August. The new terms significantly increased the geographical reach of agreement to nine states. In the space of two months, Kambi has helped DraftKings launch online in Indiana and West Virginia, and on property in Iowa, Indiana, and New York. Having already taken a strong position in New Jersey, we are now live with DraftKings in five states, with more to be added.

**Kristian Nylén**  
CEO | Kambi Group

Elsewhere, we also renewed our agreement with NagaWorld in Cambodia, where we will continue to power the retail sportsbook at its two flagship casinos with an extended live package. NagaWorld was our first pure retail customer. I'm delighted to see us continue our partnership. Now to slide 14. It was another busy quarter for customer launches, with more than a dozen in total. As I mentioned previously, Kambi recorded another first in the U.S. when taking the first legal bet in New York with Rush Street. We also launched on day one of a regulated market going live in Iowa and Indiana. Also supported Unibet with its first U.S. launch with New Jersey online, and later retail in Pennsylvania. In total, Kambi launched customers into six U.S. states across online and retail, once more proving our operational excellence. Turn to slide 15.

**Kristian Nylén**  
CEO | Kambi Group

We also continue to improve the product our customers offer to their players. Kambi will only be successful in the long term if the end users enjoy the sports betting experience and keep returning to play. Accumulators are a popular bet type. They also attract recreational players and deliver good margin. This is why evolving the accumulators has been a major focus for many tier 1 sportsbooks in recent years. Earlier this year, we launched Bet Builder, which allows for in-game accumulators and is now a hygiene factor for leading European sportsbooks. In Q3, we expanded on the capability of Bet Builder by launching Multi-Builder, which effectively allows players to combine bet builders or in-event combinations with other multiple or single bets, even in the case of related contingencies. This gives players much more freedom to combine a greater range of selections into a single bet.



**Kristian Nylén**  
CEO | Kambi Group

What we are effectively doing is breaking down the barriers that exist when combining outcomes by putting more flexibility in our platform. As an example, you can see on the right a bet slip containing a free selection Bet Builder in last night's Arsenal match, combined with an in-event combination in this morning's NFL game, with one single price offer. Almost everywhere else, this bet wouldn't be possible due to related contingencies. Kambi is leading its peers in offering this functionality, which has already proven to be popular among players despite minimal marketing. Turning to slide 16. The momentum we built has continued into Q4. So far, we have completed seven separate launches, including taking the first legal online bets in Indiana with Rush Street and DraftKings, and launching in two Pennsylvania properties with Penn National Gaming.



**Kristian Nylén**  
CEO | Kambi Group

Meanwhile, our achievements were recently recognized by the Global Gaming Awards, where we were named Digital Supplier of the Year, up against companies from the sports betting and casino gaming verticals. Turning to slide 17. Regulation and compliance is key to Kambi's success, one of our major strengths. While this is something we have long been focused on, the recent tightening of regulations in some countries, as well as the opening up of new regulated markets, continues to create a complex global market in which to operate. For many companies, the myriad of regulations are creating a barrier to entry, often delaying or completely ruling out expansion into new markets, largely due to inflexible technology unable to comply with these regulations. Meanwhile, we have seen some companies fined and even withdraw from markets due to introduction of more stringent regulations.



**Kristian Nylén**  
CEO | Kambi Group

One of the main reasons Kambi was created was because we recognized the spread of regulation would deliver greater complexity. From the outset, we built the technology and instilled processes which would give us and our customers a competitive advantage in this landscape. Evidence of this can be seen over the past year or so, where we have created a number of market firsts in the U.S., enabling our customers to be first to market and gain early market share, while also preemptively minimizing their exposure as license holder to regulatory risk in countries such as U.S., Spain, and Sweden, where there are varying restrictions of taking bets on events involving under 18s or local college sides, for instance.



**Kristian Nylén**  
CEO | Kambi Group

When combined with the strong relationship we build with regulators, often lending advice and sharing best practice, our customers have been able to operate with confidence, safe in the knowledge that Kambi's excellence in all aspects of compliance is increasingly a competitive advantage. Turning to slide 18. To recap, Q3 was another good quarter. Despite a quiet sporting calendar early in the period, September was our finest operator turnover month on record, which gives me confidence for the rest of the year and beyond. We signed two new customers in Penn National Gaming and JACK Entertainment, which gives us a strong position in Ohio, a major state in the U.S., and market access to states which can make up around half of the U.S. population.



**Kristian Nylén**  
CEO | Kambi Group

Finally, our recent award win in the Global Gaming Awards cements our position as a global leader in sports betting provision and underlines the great 12 months both Kambi and its customers have enjoyed. Now, I will pass over to the operator for questions.

## Q&A

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**Operator**

Thank you. Ladies and gentlemen, if you do wish to ask a question, please press 01 on your telephone keypad now. If you wish to withdraw your question, you may do so by pressing 02 to cancel. First question is from Erik Moberg from ABG. Please go ahead, your line is now open.

**Erik Moberg**

Analyst | ABG

Good morning, guys, and congratulations on a good report. If we break down the business into three parts, your U.S. business in one part, and then you have new contracts in Europe and Latin America since late 2017 and during 2018, such as ATG and Corredor, Nacional AD, et cetera. We also have your legacy business such as Kindred, 888, and LeoVegas. How much do you think that the legacy business on a standalone basis will be able to grow into 2020? You do have a positive effect from Europe Championship in soccer. Do you think that this part can grow by double digits?

**Kristian Nylén**

CEO | Kambi Group

Just to reiterate the question, you're asking about the more established business, if that can grow more than double digits %?

**Erik Moberg**

Analyst | ABG

Exactly. Sort of Kindred, 888, LeoVegas. If we exclude for the U.S. also new contract signings such as ATG, Corredor, Nacional AD, et cetera.

**Kristian Nylén**

CEO | Kambi Group

I would guess double digit is probably a little bit ambitious for the more mature business at this point, mainly due to all the recent regulations.

**Erik Moberg**

Analyst | ABG

Yeah. Fair enough. Is it fair to assume more in line of, say, 5%-7%, sort of?

**Kristian Nylén**

CEO | Kambi Group

We haven't really broke down with the business. I don't really want to give you a too detailed figure.

**Erik Moberg**

Analyst | ABG

Okay, fair enough. Could you perhaps also give us an update on Corredor in Colombia's performance? Is its momentum continuing? Did you grow on a Q and Q basis? Also how have Q4 started?

**Kristian Nylén**

CEO | Kambi Group

Corredor in Colombia has gone from strength to strength. I think we are the clear market leader in the Colombian market at the moment, and we have certainly grown quarter on quarter.

**Erik Moberg**

Analyst | ABG

Got it. In terms of Latin America, could you perhaps give us an update on the current roadmap in terms of regulation and also add some flavor in regards of the pipeline of new clients within that region?

**Kristian Nylén**  
CEO | Kambi Group

I think it's some uncertainty at the moment. We felt and we're very certain that something would happen in Buenos Aires when we talked last quarter. Now it's a new government probably coming in, and that may slow down the rollout of new regulations in Argentina. Brazil, we also expect something will happen, no new news since last quarter. I guess those are the two most important countries, of course, in Latin America. We're also looking at other countries in the region. When it comes to sales pipeline, I think we have some interesting leads, surely, in Latin America.

**Erik Moberg**  
Analyst | ABG

Fair enough. In terms of Indiana, could you elaborate a bit on the start there and how you expect the market to ramp up?

**Kristian Nylén**  
CEO | Kambi Group

Yes, I think very positive start. Still quite early days, but it's a sufficiently large state. I have great hopes for Indiana.

**Erik Moberg**  
Analyst | ABG

Got it. In terms of JACK Entertainment, there is approximately 12 million people live in Ohio. What sort of market position could we expect JACK Entertainment to take in Ohio? Do you perceive JACK Entertainment to have similar potential as ATG has in Sweden?

**Kristian Nylén**  
CEO | Kambi Group

Probably not. I think ATG had a very unique position with having a long monopoly for racing. What kind of market share JACK can gain? I think it depends a little bit on how the market access will pan out. As I said, when it comes to retail casinos, they are one of the largest and most known brands. They should be able to take a good position in the market.

**Erik Moberg**  
Analyst | ABG

Got it. What do you think about their potential within online? Do you think they will be able to compete within the online landscape as well?

**Kristian Nylén**  
CEO | Kambi Group

Yeah, I hope so. I definitely think so. As I said, they have a very well-known brand, and that is usually a good ingredient to take a decent market share, even online.

**Erik Moberg**  
Analyst | ABG

Fair enough. Thank you very much, guys. That's all for me.

**Kristian Nylén**  
CEO | Kambi Group

Thank you.

**Operator**

Just as a reminder, if you have a question, please press 01 on your telephone keypad now. The next question is from Christian Hellman from Nordea. Please go ahead. Your line is now open.

**Christian Hellman**  
Analyst | Nordea

Hi, thanks. Just a question on the U.S. Can you please perhaps share something about the size of your U.S. business currently? Is it around 10% of revenues in Q3? A little bit less, a little bit more? I'm thinking it's in that region, but is it possible to say something about that in terms of numbers quantifying it?

**David Kenyon**  
CFO | Kambi Group

Hi, Christian. We haven't actually, at this stage, fully split out all the geographical sources of the revenues. It's something we're looking to potentially for next course onwards. Yeah, everything is, of course, broadly disclosed in the U.S., and yeah, it will take you on the right track with those estimations you make.

**Christian Hellman**  
Analyst | Nordea

Okay. You stated that 38% of your turnover was generated in September. Can you sort of equate that to around 38% of your revenues? I understand that it depends perhaps on the sportsbook margin in the different months, et cetera. Everything equals, so to speak.

**David Kenyon**  
CFO | Kambi Group

Yeah, that's fair. Yes. Everything else being equal, yes, that works. Yeah.

**Christian Hellman**  
Analyst | Nordea

Perhaps that's a leading question. Can you just sort of do the numbers? That means that you did close to EUR 9 million in revenues in September. I guess if you triple that, you should be doing at least EUR 26 million in Q4. Again, given that sort of the sportsbook margin stays roughly the same. Was there something we should sort of take into account? Perhaps sportsbook margin was quite strong in Q4 last year.

**David Kenyon**  
CFO | Kambi Group

Sure. Obviously, this quarter, we've seen a very high margin at 8.5%. Yeah, don't necessarily count on that for the full Q4. The other thing is the sporting calendar does tail off slightly towards the, over Christmas, the football seasons across Europe, obviously leagues take some downtime. Yeah, a pure extrapolation doesn't work out, but yeah.

**Christian Hellman**  
Analyst | Nordea

Okay. Last year, the sports book margin was quite strong as well, wasn't it?

**David Kenyon**  
CFO | Kambi Group

In Q4, yes.

**Christian Hellman**  
Analyst | Nordea

Which clients will ramp up a lot in Q4, if you sort of look at their at least efficiently communicated plans? I am thinking about Penn and DraftKings in particular, I guess. They are still sort of the two big ones in terms of potential for you in U.S., but how should one think about sort of what you have done in September, which is sort of the first month of really a lot of sports betting activity in U.S. and sort of how these clients of yours in the U.S. will sort of expand operations in Q4?

**Kristian Nylén**  
CEO | Kambi Group

As we've stated, it has been a lot of new launches in the U.S. during the latter part of the quarter. When it comes to DraftKings, they are live now in both West Virginia and Indiana online, which I would believe is the largest chunk of revenues. You can probably see something happen in one or two more states as well. For the others, I think Penn National, they are live in three states with retail casino. As we've stated in the report, nothing will happen on the online side until somewhere next year.

**Christian Hellman**  
Analyst | Nordea

Okay. Relative sort of your own expectations on September, if you just look at sort of the turnover statistics that have come out from New Jersey, and also from Pennsylvania, when the NFL season kicked off. Obviously, it was a huge uptick versus August. Versus your own sort of internal expectations, what's your sort of view on how the U.S. sports betting season is ramping up now with all the leagues getting on?



**Kristian Nylén**  
CEO | Kambi Group

Yes, traditionally, even in Europe, and I think you will see the same pattern in U.S., October, November are the two strongest months of the year, sporting calendar-wise. NBA, the second largest league in the U.S., started last week. Activity-wise, when it comes to sports, Q4 is a significantly better quarter than Q3.



**Christian Hellman**  
Analyst | Nordea

Yeah. I understand that. I'm thinking about September. Just looking at those numbers. Were those numbers better or a bit below your own sort of thoughts ahead of the numbers, so to speak?



**Kristian Nylén**  
CEO | Kambi Group

I think we were very pleased with the numbers for September. Very much in line with our thoughts, I would say.



**Christian Hellman**  
Analyst | Nordea

Okay. Just finally on sort of customer pipeline going forward. Obviously, Penn National is a huge signing for you. If we look at what's your sort of feelings about the customer pipeline at the moment for the U.S., but also for Europe. I know the G2E conference was in Vegas a few weeks ago, and I guess a lot of the deals and whatnot are made during those days in Las Vegas. What's the pipeline looking at the moment?



**Kristian Nylén**  
CEO | Kambi Group

I think it looks very promising. I'm very pleased with the exhibition in Las Vegas. I think there are a lot of good opportunities. I think the kinds of Penn Nationals, there are not very many or if even any multi-state operators left on the market at the moment. I think you will see more of the kind of deals JACK Entertainment rather than Nationals going forward.



**Christian Hellman**  
Analyst | Nordea

Okay, thanks. Just a final question on sort of the competitive landscape for you as a B2B supplier. I don't know the exact state of SBTech, but there's rumors of it being up for sale, and it goes a bit back and forth. How does that sort of impact you when negotiating with potential clients? I guess that should be sort of a relative positive for you, or?



**Kristian Nylén**  
CEO | Kambi Group

Yeah, it would depend very much on what kind of buyer it is, of course. I would assume that if a buyer is an operator, other operators would be less inclined to stay as a customer with a competitor.



**Christian Hellman**  
Analyst | Nordea

Yeah. Also signing, I guess, if they don't know what's happening with SBTech.



**Kristian Nylén**  
CEO | Kambi Group

Exactly.



**Christian Hellman**  
Analyst | Nordea

Have you felt that?



**Kristian Nylén**  
CEO | Kambi Group

At the moment, I think we are in such a strong position anyways. What we have delivered so far in the U.S. is taken very positively. If you look at our competitors and what market shares they have been able to gain in competitive markets, it's quite a wide difference at the moment. I think we already have a very strong position in the U.S.



**Christian Hellman**  
Analyst | Nordea

Okay. Thank you. That was it for me.

**Kristian Nylén**  
CEO | Kambi Group

Thank you.

**Operator**

We have one more question, and it's from Viktor Högberg from Danske Bank. Please go ahead. Your line is open.

**Viktor Högberg**  
Analyst | Danske Bank

Hey, guys. I have a question on the organizational expansion. With your employees now at some 830 people, could you elaborate how that translates into the 3%-5% OpEx increase into Q4 and what the implications for 2020 might be?

**David Kenyon**  
CFO | Kambi Group

If you look at what we've done in the last quarter, we're up around 50 versus what we reported last quarter. As I mentioned, we're fully operational now. Well, not fully operational, but operational in Philadelphia with around 20 staff. The rest, there's some in IT development, but the majority of the rest is traders in our Manila and Bucharest offices as we're increasing the number of live events we're offering and also bulking up our US college sports offering. I think, given that pattern, yeah, we've translated that into the numbers and obviously different cost levels in different parts of the business translates into the 3%-5%. I think if looking forward, we haven't yet given our guidance for next year. We'll probably do that on the back of the Q4 report.

**David Kenyon**  
CFO | Kambi Group

At the moment, we're just making the right level of investment to capitalize on the U.S. opportunity, and we'll continue to do that. Could be around a similar level, I would estimate at this stage.

**Viktor Högberg**  
Analyst | Danske Bank

Okay. 3%-5% sequentially in 2020 as well, maybe. Could I ask also, you reiterated the sports margin range that you expect over time of 6.5%-8%. It was a long time ago. We saw the low end of that range. Could you elaborate something about the structure of the market since European margins are structurally higher? Is this range relevant going forward?

**Kristian Nylén**  
CEO | Kambi Group

It's a very good question, actually. We are doing a thorough work now to see where we think that the margin should be going forward. There has been a lot of new introductions of high-margin products such as Bet Builder and now Multi-Builder, that impacts the margin upwards. The big question for us is still, we have always thought that the U.S. margin would be lower. That is a big uncertainty for us. Where should the long-term average be for the U.S. market? I think we will probably come back either to give you a reiteration of the current stand or change it in the next quarter review.

**Viktor Högberg**  
Analyst | Danske Bank

Yeah. Okay. Assuming U.S. margin is a couple of % lower, the U.S. around 10% now. Decent growth in the U.S. going to take some years for that to make a dent in the group margin then. Coming years, the upper end of that range would be more relevant, I guess.

**Kristian Nylén**  
CEO | Kambi Group

I would wait to do a conclusion on that until we come back with our studies on this.

**Viktor Högberg**  
Analyst | Danske Bank

Okay. Well, thank you.

**Kristian Nylén**  
CEO | Kambi Group

Thank you.

**Operator**

Okay, we have one more question from Lars-Ola Hellström from Pareto Securities. Please go ahead, your line is open.

**Lars-Ola Hellström**

Analyst | Pareto Securities

Hi, guys. First of all, just a clarification on the cost side. Looking on other costs, it's sequentially lower and it's the lowest level since Q1 2018, while employee staff cost jumps quite a lot. Is there a reclassification of the cost? You're still guiding for 3%-5% sequential OpEx growth in total. Just between those lines, is there a reclassification?

**David Kenyon**

CFO | Kambi Group

Hello. It's no reclassification. It's just more kind of a bit of a seasonal pattern in terms of our costs. We have used a little bit less on the IT consultants during the summer. There's also a bit less travel, and also some of the marketing events are more actually around Q1 and Q4 in particular, and also a little bit in Q2. A bit less in Q3 on the marketing events. Our marketing costs weaker. That's why other is actually down. In terms of the staff costs, it's a few different things, but it's various bonuses related to customer signings. Some additional NI costs on share options and the increase in staff, the heads that I talked about. I think overall, yeah, we're still seeing 3%-5% next quarter.

**David Kenyon**

CFO | Kambi Group

The pattern might shift back to a slightly more normal split between staff and other within that 3%-5%.

**Lars-Ola Hellström**

Analyst | Pareto Securities

Okay. Thank you. Can you give us some flavor on the margin in October? We're listening to the call of Kindred, it seems like at least in Europe, the margin has been quite similar in the first 23 days in October to last year. Have you seen the same thing for?

**Kristian Nylén**

CEO | Kambi Group

Yeah, we have chosen not to give any guidance from our side, but obviously, Kindred is still a very large chunk of our business. I guess you can, at least for a large chunk of our business, make some assumptions based on Kindred's comments.

**Lars-Ola Hellström**

Analyst | Pareto Securities

My final question about the operator rate of turnover index. You said the strongest month was in September when it was really, really high. Of course, it's U.S., the NFL is starting as well, but is it a broad-based pickup in activity in the legacy business in Europe as well, including the Netherlands?

**Kristian Nylén**

CEO | Kambi Group

Oh, yes. You have to remember that, the whole soccer season of European football season, there is nothing going on in June and July. All leagues except in Scandinavia is starting in August. There is definitely an uptick. September is the first month with full activity in the football leagues in Europe as well.

**Lars-Ola Hellström**

Analyst | Pareto Securities

More specific, you have seen strong activity coming back in Netherlands as well, even though it has been some kind of restriction on the payment methods as well.

**Kristian Nylén**

CEO | Kambi Group

I can't comment on one single country, but obviously yeah, the Dutch players are very much into football. You can draw your own conclusions from that.

**Lars-Ola Hellström**

Analyst | Pareto Securities

Yeah. Thank you.

# Kambi Group

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**Operator**

There are currently no further questions. I'll hand the call back to the speakers for any closing comments. Please go ahead.



**Kristian Nylén**

CEO | Kambi Group

Thank you for your questions and for listening in. We look forward to updating you on the 12th of February 2020, when we publish our fourth quarter results for 2019.



**Operator**

This now concludes the conference call. Thank you all for attending. You may now disconnect your lines.