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Kambi Group

Q2 2019



Speakers



Anton Wester
Analyst | Pareto Securities



Bile Daar
Analyst | Keel Capital



Christian Hellman
Analyst | Nordea



David Kenyon
CFO | Kambi Group



Erik Moberg
Analyst | ABG



Hjalmar Ahlberg
Analyst | Kepler Cheuvreux



Kristian Nylén
CEO | Kambi Group



Operator



Viktor Högberg
Analyst | Danske Bank

Prepared Remarks



Operator

Ladies and gentlemen, welcome to Kambi Group Q2 Report 2019. Today, I am pleased to present Kristian Nylén, CEO, and David Kenyon, CFO. For the first part of this call, all participants will be in a 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 second quarter results presentation. I am Kristian Nylén, Chief Executive, and joining me is our CFO, David Kenyon. Please turn to slide two. In a moment, I will give you a brief overview of what was another good quarter for Kambi, after which David will take you through the numbers. I will then speak about the quarter in a little bit more depth, including a new customer signing and market launches. 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 750 highly skilled staff, forms the foundation of our service.



Kristian Nylén

CEO | Kambi Group

The platform is 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 operators' success. The foundation of our service is based on scalability, and the majority of our cost base is fixed. At no additional cost to the operator, Kambi continuously invests in products, 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.



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 the market and allowing the operators to enter new markets as and when they require with high quality and localized sportsbook. We often hear the frustrations of sportsbook execs that are held back by in-house tech, drowning in the rising tide of complex compliance requirements, ultimately leaving money on the table for others. The platform frees operators from these challenges, enabling them to scale at pace across the globe and focus resources on other areas of the business.



Kristian Nylén

CEO | Kambi Group

In total, we power 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. This model enables Kambi to, for instance, aggregate and analyze all data produced across the network, which guides and informs our product development, ensuring we maintain market leadership. The network effect also contributes to trading and risk management, with our global coverage feeding into the delivery of sharp and more accurate prices. With each and every operator added to a Kambi network, the benefits are felt by all and is a major reason why operators have been able to grow individually. Let's look at the quarterly highlights on slide five. In Q2, we posted revenues of EUR 21 million, a 23% year-on-year increase. Operator turnover was up 26% at an operator trading margin of 8.2%.



Kristian Nylén

CEO | Kambi Group

We signed a new customer in BetWarrior, who I will speak about in more detail later, while we also created another market first, processing the first legal online wager in Pennsylvania through our partner Rush Street Interactive. I will also touch on our activity so far in Q3, which includes being first to launch in New York, again with Rush Street. Now I hand over to David to walk you through the financial highlights. Turning to slide six.

**David Kenyon**
CFO | Kambi Group

In Q2, we had revenue of EUR 21.6 million, up 23% on last year. For the first six months, revenue was EUR 42.6 million, up by 25%. Operating costs for the quarter were EUR 19.1 million, giving an operating profit of EUR 2.5 million at a margin of 11.7%. For the first six months, operating costs were EUR 37.5 million, and operating profit was EUR 5.1 million at 12.1%. Our cash flow for the quarter, excluding working capital, was EUR 0.4 million, and the net cash position at the end of June was EUR 33.1 million. Let's look at the income in some more detail, turning to slide seven. This slide sets out the Kambi turnover index. The graph shows the results generated by Kambi for its operators. The turnover is the total stakes placed with the operators by their end users.

**David Kenyon**
CFO | Kambi Group

In Q2, we've seen operator turnover up by 26% on Q2 last year, including underlying growth from our existing operators and from new operators in the US and Sweden in particular. This growth is despite Q2 last year, including the majority of the matches of the 2018 FIFA World Cup, which added 14% of the turnover in the quarter. In years with no FIFA World Cup or European Championship, Q2 typically experiences seasonality effect from the culmination of the major European football leagues and certain American sports seasons. As we can see on the graph, the 2019 pattern of a slight dip in Q2 from Q1 repeats what we saw in 2017. The margin represents the combined trading margin made by the operators. In Q2, this margin was 8.2%. We expect an average long-term operator trading margin in the range of 6.5%-8%.

**David Kenyon**
CFO | Kambi Group

We are continuously monitoring our expectations for this margin. 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 26% compared to Q2 2018. The operator trading margin, multiplied by the turnover, generates the operator's gross gaming revenue or GGR. The operator trading margin of 8.2% compares to the 7.8% we saw last year. Overall, this led to an operator GGR increase of 33% year-on-year. Kambi's commission is based on a percentage of the operator's net gaming revenue or NGR, which is after the deduction of gaming tax and certain marketing incentives.

**David Kenyon**
CFO | Kambi Group

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. In total, 71% of our revenues came from locally regulated market, compared to 48% last year. The impact of certain contract extensions, the fixed part of our revenues, and certain volume-related commission tiers is shown in the other column of the graph. The conversion from operator NGR growth to our revenue growth in Q2 is 88%. The net effect of all these factors is that revenue for Q2 2019 is up by 23% on Q2 last year to EUR 21.6 million. Let's turn to the full income statement on slide nine. Operating expenses for the second quarter were EUR 19.1 million. We continue to invest in building a market-leading sportsbook, as well as the ongoing licensing and development of our commercial operations in the U.S.

**David Kenyon**
CFO | Kambi Group

Looking forward, as we seek to capitalize on the commercial opportunities we see ahead of us, we anticipate sequential growth in operating expenditure of 3%-5% for the remaining quarters of the year. Operating profit was EUR 2.5 million for Q2, compared to EUR 2.4 million last year, and EUR 5.1 million for the first half of the year, up from EUR 4.4 million last year. Profit after tax was EUR 1.6 million for the quarter, compared to EUR 1.7 million last year, and EUR 3.6 million for the first half, up from EUR 3.2 million last year. Now let's look at 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 40.8 million.

**David Kenyon**
CFO | Kambi Group

Capitalized development costs in the quarter were EUR 3.9 million, whilst the amortization charge on previously capitalized costs was EUR 2.4 million. This quarter saw the payment of the annual interest on convertible bond and certain tax payments made, for which the company will receive a partial refund later in the year. The net cash outflow for the quarter was EUR 0.4 million, and our closing cash balance was EUR 40.4 million. Now let me pass you back to Kristian. Turning to slide 11.



Kristian Nylén
CEO | Kambi Group

Thanks, David. In June, Kambi signed an agreement with BetWarrior. Founded and led by poker sports directors, the management team plans to target regulated markets, with Latin America as a major focus. The BetWarrior strategy very much complements the Kambi model. The operator is in the process of developing a unique front end using the Kambi APIs and will harness the real-time data provided by Kambi to deliver personalized experience to their players. We look forward to launching together at some point this year. Turning to slide 12. Kambi has supported customer launches in Q2, one of which saw us create another little piece of sports betting history. In May, our customer Rush Street Interactive took the first legal online wager in the state of Pennsylvania when its PlaySugarHouse brand was the first to launch online.



Kristian Nylén
CEO | Kambi Group

In June Sportsbook and Greenwood Gaming and Entertainment's Parx Casino Sportsbook online in Pennsylvania. We were first non-Kambi online sportsbook, having only gone live this week. Kambi launched the first free sportsbook in the market, giving them valuable early mover advantage. Being first to the market is no accident. We achieved similar in New Jersey when DraftKings had a near month-long monopoly on the online market. We pride ourselves on our corporate probity and our transparency and our close relationships with regulators. We have also developed flexible technology, which can adapt at speed to differing sets of specifications we see from state to state and country to country. Rescalability is an essential consideration for operators with international or multi-state ambitions and will prove to be a key differentiator as more regulated markets open up.



Kristian Nylén
CEO | Kambi Group

It was this ability to scale operators, which recently led us to be working with William Hill, one of the most iconic sports betting brands in the world. Following its acquisition of one of our customers, we were able to assist William Hill's entry into a recently re-regulated Swedish market. Also, as I mentioned in the Q1 report, we plan to launch online in Moldova with the National Lottery of Bulgaria. I am pleased to say this launch took place in late June, with retail to follow before the end of the year. Moving to slide 13. It has been a particularly busy few weeks for Kambi since the end of Q2. Last week, we processed the first legal bet placed in New York with our operator, Rush Street.



Kristian Nylén
CEO | Kambi Group

While it's a shame there is no prospect of online sports betting in the state for at least another year, we are proud to have been the first to market on property as Rush Street launched with Rivers Casino & Resort. This landmark shows Kambi's ability to deliver at speed. As I have discussed previously, Kambi has proven its retail capabilities time and again over the past year or so, both in terms of rollout and product quality. I expect more on-property launches to take place throughout the rest of the year. We have also extended our contract with Rank Group. Since 2016, we have been providing Rank's U.K.-facing Grosvenor Sport brand with our sportsbook. I'm pleased that this will continue. In addition, Kambi will also supply Rank's Spain-facing Enracha brand, which will be launched later this year.



Kristian Nylén
CEO | Kambi Group

We look forward to building on our relationship with Rank over the course of the contract. Now to slide 14. At Kambi, we have seen some positive regulatory developments in the U.S. in recent months, with a number of states passing bills to launch sports betting. Among those states are Illinois, Iowa, Indiana, and Tennessee. In the case of Iowa and Indiana, sports betting could be live by the start of American football season in about six weeks. In both states, online and on-property legislation has been passed. Illinois and Tennessee are likely to follow early next year. In Tennessee, there will be no brick-and-mortar casinos. Online legislation will not tie operators to land-based casinos, as we have seen in other states.



Kristian Nylén
CEO | Kambi Group

As mentioned, we are disappointed by the lack of progress for online sports betting in New York and also in Connecticut, but we remain hopeful for both in 2020. There have been some positive signs in a number of other states, including California, where in June a bill was introduced to propose a ballot measure which could legalize sports betting in the state. California voters could be given an opportunity to amend its constitution and allow sports betting as early as November 2020. It's still very early days, and we have seen the failed attempts to legalize online poker, but it is promising to see lawmakers in the state beginning to address this issue. In Buenos Aires City, sports betting regulation has been passed, with between three and 10 operator licenses available.



Kristian Nylén
CEO | Kambi Group

This is in addition to Buenos Aires Province, which passed regulation earlier in the year. Together, the two provinces make up roughly 40% of the population, a combined market of around 20 million people. Turn to slide 15. As a number one sport in the U.S., it is perhaps unsurprising that American football is also the most popular for sports bettors in the U.S. Over the course of last season, NFL ranked first and college football second in terms of turnover ahead of all other sports and leagues. According to data from the Kambi network, nine in 10 U.S. customers bet on NFL during the season, with approximately half of all new customers making their first bet at football.



Kristian Nylén
CEO | Kambi Group

In New Jersey alone, more than a half-billion dollars was wagered on football last season, a figure that will only increase this year with more operators and greater visibility. Considering the increased number of states that will be offering sports betting this season, it underlines why a high-quality football product will be crucial if operators are to compete. As our performance in New Jersey suggests, Kambi had a leading football product last year. Enriched with our experience and valuable data gained throughout last year, we are aiming to raise the bar once again and ensure our operators have the number one product on the market. For example, we have been investing in a new trading model for American football. This will bring us and our partners a number of benefits.



Kristian Nylén
CEO | Kambi Group

For instance, last season, we saw great appetite for our instant betting markets in the U.S., and the work we are putting into a new trading model will allow us to build on these instant bet offers and deliver more exciting betting experiences. Secondly, it was noticeable that the industry as a whole struggled slightly with suspension times in play betting last season. While we are among the better performers in this area, there was room for improvement, and our new trading model will enable us to have our markets available for longer and during the most pivotal moments of a game, giving players an even greater experience and our operators longer periods in which to generate turnover. Turning to slide 16. In summary, Q2 was another solid performance from Kambi, with satisfying revenue and turnover growth.



Kristian Nylén
CEO | Kambi Group

We continued our U.S. expansion with first-to-market launches in Pennsylvania and the following quarter in New York State. Finally, Kambi offers a market-leading sports book, which continues to break new ground with our unrivaled speed-to-market capability in new regulated markets. We were first in New Jersey post-PASPA. We have established a leading position in Pennsylvania's retail market and launched the first free online sports book together with our partners. In July, we again were the first in New York. Our product is market-leading, and our service is proven to bring our partners financial success. We firmly believe Kambi is very well-positioned for the long term, and I'm confident whatever the future may hold, Kambi will continue to lead the market and empower our operators to realize their sports book ambitions. Now, I'll pass over to the operator for questions.

Q&A



Operator

If you would like to ask a question, please press zero one on your telephone keypad now. If you would like to withdraw a question, you may do so by pressing zero two to cancel. Our first question is from Bile Daar from Keel Capital. Please go ahead. Your line is open.



Bile Daar

Analyst | Keel Capital

Hi, do you hear me?



Kristian Nylén

CEO | Kambi Group

Hi, Bile. I hear you well.



Bile Daar

Analyst | Keel Capital

I have two questions. The first one mainly focusing on sort of your business model. What we've seen earlier this year is that there's been a desire or a tendency that once operators reach global scale, that they tend to insource their sports book. We'd like to hear your thoughts on that, and if you could elaborate on your ability to scale your customers and your ability to sign such global accounts in spite of the desire to insource the product.



Kristian Nylén

CEO | Kambi Group

Thanks. Yeah. First, I've seen a lot of discussions around this area. I don't really think that cost is a decision point for any operator deciding to bring sports betting in-house. I think it's mainly a belief of a company valuation becoming more valuable with owned technology, or that you believe that you have a better possibility to differentiate your product. For the latter, that is obviously possible if you have strong enough technology. I think you have seen many cases in many industries where that has not really been the case. You can take Nokia, for instance, in the mobile industry, trying to do their own operating system and are not really on the market anymore.



Kristian Nylén

CEO | Kambi Group

I still believe that even if you become very large, the outsource model is probably the model that will be most viable for most customers in the future as well. Did that answer your question?



Bile Daar

Analyst | Keel Capital

Yes, it did. Thank you. A second question, which relates to the recent regulation in Sweden, and what we saw, I think it was in June, was that there was a handful of operators that received a fine for offering bets on games where the athletes were under the age of 18. We so far, and thankfully you haven't been fined yet, or you hopefully won't be fined either in the future, but could you just give us sort of an overview about your systems and how you were able to mitigate this, and if there's any dialogue that you currently are holding with the regulator, and if there's a chance to revise this regulatory law?



Kristian Nylén

CEO | Kambi Group

Yeah. I think the last question first. I don't think neither us or the operators have a good chance of having a dialogue with regulators at this point, which is very unfortunate, because I think the rules are very unclear. Legal advice is differing very much, and I am not sure everyone knows or understand what is happening at the moment. I think why we have been able to not having our operators fined so far, we took a quite cautious approach from the beginning. We will keep on doing that. Having said that, sometimes it's just impossible to know if a majority of participants are underaged. If you take a friendly in football, for instance, it's not like you have any lineups well in advance of a match. It may be just afterward that you actually knew that that was the case.

**Kristian Nylén**
CEO | Kambi Group

I think from a regulator's perspective, I think it's very important that we get a better dialogue and much clearer rules because at the moment, it's not really possible to be certain that you follow the rules, I would say. We do as good as we possibly can. Yeah, we have created a lot of systems to track players and understand their age in especially sports like tennis, of course.

**Bile Daar**
Analyst | Keel Capital

Just one final question. There's been a lot of discussion in the U.S. about integrity fees and there are some states that are looking at including that into their regulatory framework. Where does that leave you? Is that a topic that you need to address or your clients?

**Kristian Nylén**
CEO | Kambi Group

Mainly our clients, I would say. For us, it has quite a large impact as well because we need to provide the data. In many cases, the integrity fees are tied to using official data. What can happen here is that if you have integrity fees, you may get well too high pricing on official data. It can have an impact, but obviously it's the operators who are responsible for integrity fees. As we are a supplier, it affects us as well to some extent.

**Bile Daar**
Analyst | Keel Capital

Thank you.

**Operator**

Our next question is from Erik Moberg from ABG. Please go ahead. Your line is open.

**Erik Moberg**
Analyst | ABG

Morning, guys. Just in regard to the underlying growth, if we exclude for FIFA World Cup last year, could you give us some flavor on that?

**David Kenyon**
CFO | Kambi Group

Yeah. Hi. If you stripped out both EUR 15 million the turnover came from the World Cup. If you take that out, we would have seen 47% operator turnover growth this quarter versus Q2 last year. It was 46% in Q1, it's a quite consistent number there.

**Erik Moberg**
Analyst | ABG

Okay, fair enough. In terms of your top line, if you look at customers that have been signed for the past 12 months, how much of your top line stem from those customers?

**David Kenyon**
CFO | Kambi Group

It's not a number we split out as such. Of course, in the last 12 months, we signed kind of all the American customers plus ATG, Consumo, various, quite a roster of customers there. What I did mention when I spoke was that the growth we've seen operator turnover has come both from the new but also underlying growth in existing. The growth is coming from both parts of the business.

**Erik Moberg**
Analyst | ABG

Okay, if you're looking at these customers, do you expect this to sequentially improve during H2 now and into next year? How much do you think these customers can grow, so to speak?

**Kristian Nylén**
CEO | Kambi Group

I can't give you a number of what we think it grows, of course, since we don't give guidance. As new customers becomes larger, they will have a higher impact on the future revenues. The impact of the customers who are signed during the last 12 months will obviously have a larger impact going forward.

**Erik Moberg**
Analyst | ABG

Okay, fair enough. If you look at your Corredor in Colombia, National Lottery in Bulgaria, could you give us some flavor on the development Q&Q and the sort of the outlook you see for the remainder of the year? Do you believe those two contracts will continue to accelerate?

**Kristian Nylén**
CEO | Kambi Group

Yeah, especially Colombian ones. They are doing fantastically well. I think Corredor has taken a very strong position in Colombia, keeps on growing. That looks very promising. Bulgarians, they are also doing well, and I think there we are very excited on what can happen being more or less the only operator licensed to operate sports betting.

**Erik Moberg**
Analyst | ABG

Okay, fair enough. Just looking at the profitability, theoretically, if we would just remove 888 and DraftKings from top line completely for this quarter, would you still be profitable today?

**David Kenyon**
CFO | Kambi Group

To be honest, that's not a way we're looking at it right now. I mean, to start with ATG, there is protection in the contract, which we've talked about before. It's a contract which I think they've probably talked about that runs at least into 2021. It's not really an exercise we're doing. More importantly, we're continuing to invest right now because we see these great opportunities ahead of us in LATAM, in America. We're more interested in what we can achieve, rather than looking at what we might lose in the short term.

**Erik Moberg**
Analyst | ABG

Okay.

**David Kenyon**
CFO | Kambi Group

Of course, we can reassess that in the future if things change. Right now, that's how we see it.

**Erik Moberg**
Analyst | ABG

Okay. In terms of LATAM, you mentioned BetWarrior there, who are aiming to become one of the largest players on that continent. In terms of potential in a blue-sky scenario, do you think that BetWarrior has the potential to become a new 888?

**Kristian Nylén**
CEO | Kambi Group

I mean, it's way too early to say. I think the management has a very good vision. I definitely think they have a good possibility to become a market leader in many of the Latin American countries. It's way too early to say. You have seen some customers doing fantastically well and some others not so well. Obviously, we have some belief in them since we actually want to work with them. Let's see how they get started to make any big judgments on their performance.

**Erik Moberg**
Analyst | ABG

Okay, fair enough. Looking at the U.S., if we would assume in the worst case that you lose your largest U.S. client, DraftKings. In terms of 2022, U.S. revenues as a % of total sales, how much do you think that could be? Do you think you could still stay relatively the same? Sorry, continue, my bad.

**Kristian Nylén**
CEO | Kambi Group

I think if you look on the revenues coming from U.S. so far and DraftKings specifically, that has been from one relatively small state. I think even if that were to happen, I expect the U.S. to grow quite significantly from the numbers we have at the moment.

**Erik Moberg**

Analyst | ABG

Okay. I'm just asking because if we say you wouldn't have DraftKings, could you more easily take on 10-15 new customers versus if you had DraftKings? Because I assume if the SBTech DraftKings deal actually would pull through, DraftKings would probably not let SBTech go and sell their B2B sportsbook in the U.S.

**Kristian Nylén**

CEO | Kambi Group

Yeah, that's an assumption, and I think it's possibly likely. With or without SBTech as a competitor, I think we feel that so far we have been winning a lot of very strong deals outside of DraftKings, and I strongly believe that we will continue to be the B2B supplier that will win many of the attractive deals in new states to come.

**Erik Moberg**

Analyst | ABG

Got you. Just looking at your pipeline today versus Q3 last year, could you give us some flavor on that? How large is the pipeline today and versus 12 months ago?

**Kristian Nylén**

CEO | Kambi Group

Yeah. I think as I said for a long time, I think it looks very good. I think we have a lot of different opportunities going on, and I'm quite excited about the future.

**Erik Moberg**

Analyst | ABG

Fair enough. Just looking at the tribal casinos in the U.S., if you look at that particular niche, so to speak, are there any particular actors out there that you find particularly interesting to close a deal with?

**Kristian Nylén**

CEO | Kambi Group

Yeah. The larger, the most interesting, of course. Don't really want to mention anyone, but I talked a little bit about California, and that is by far the largest state in the U.S. It's, I think, roughly 30%-45% of the total GDP of U.S.

**Erik Moberg**

Analyst | ABG

Yeah.

**Kristian Nylén**

CEO | Kambi Group

Even though it's more than a year away in best case, obviously, I think both us and our competition is already looking at California.

**Erik Moberg**

Analyst | ABG

Yeah. Just hypothetically, if we would say that, say five states opening up, New York, California, Michigan, and then two additional states, would you expect to win deals there as of today? If they were to open up today. Okay, fair enough. Keeping focus to Pennsylvania, it is very difficult sort of to understand the potential, both in terms of the overall market size and also in terms of your client potential there. Sort of, do you expect Pennsylvania to contribute, say 10%, 20%, 30% or even 60% of New Jersey this year? How should we sort of model Pennsylvania?

**Kristian Nylén**

CEO | Kambi Group

I don't see any reason for Pennsylvania to be a smaller contributor talking GGR than New Jersey. It's almost twice as many people. Of course, that's offset on a much greater aspect. But I have a hard time to see Pennsylvania long-term not being a larger market than New Jersey.

**Erik Moberg**

Analyst | ABG

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



Kristian Nylén
CEO | Kambi Group

Thank you.



Operator

Our next question is from Hjalmar Ahlberg from Kepler Cheuvreux. Please go ahead. Your line is open.



Hjalmar Ahlberg
Analyst | Kepler Cheuvreux

Thank you. Just a first question about, you mentioned Iowa and Indiana going live in time of NFL this year. Do you think you will be able to have anything launched for your clients there for the NFL as well?



Kristian Nylén
CEO | Kambi Group

We hope so. As we haven't communicated anything yet, nothing is clear, so I can't give you more on that.



Hjalmar Ahlberg
Analyst | Kepler Cheuvreux

Yeah. Okay. A question on N.Y. You're up and running there now at the casino. Do you think, if you want to guesstimate on the potential from an individual casino there, do you think it's fair to compare maybe with Pennsylvania and the casinos over there? What's in terms of the revenue potential for a single these casinos could be in N.Y.?



Kristian Nylén
CEO | Kambi Group

No, not at all. I think the Pennsylvania casinos way are located in Pittsburgh and Philadelphia, whereas the New York casinos, all of them are located upstate in, not so easy accessible places. I wouldn't compare them at all to each other.



Hjalmar Ahlberg
Analyst | Kepler Cheuvreux

Okay. That's all from me. Thanks.



Kristian Nylén
CEO | Kambi Group

Thank you.



Operator

Our next question is from Viktor Högberg from Danske Bank. Please go ahead. Your line is open.



Viktor Högberg
Analyst | Danske Bank

Hi, good morning. I have a question on Apple's new guidelines for apps. Gambling apps, they need to be native iOS. Could you say something about that, if that will have an effect? Or if it's up to you or your operators, if you have anything to do with the operators apps being compliant with the new guidelines to be able to have that up and running by September?



Kristian Nylén
CEO | Kambi Group

At the moment it's not really on us. Having said that, I think with the new rules, we may look into producing more of our client in native for the future. At the moment with the new guidelines, Rush Street recently got their app approved in Pennsylvania after some extra work on the geolocation. At the moment, it's still possible to utilize the HTML5 technology in that. I think we are continuously investigating this, and we are continuously in discussions with our operators about the future here.



Viktor Högberg
Analyst | Danske Bank

Would you say you are worried or are your clients worried about this? Is the third-party geolocation workaround, is that solving the problem fully or?

**Kristian Nylén**
CEO | Kambi Group

You always have to be worried when you're dealing with a company who has such a large market share and can change rules overnight. Obviously you have to look at the picture and how to adapt to it. I think we are still fine for near future.

**Viktor Högberg**
Analyst | Danske Bank

Okay. For the OpEx growth guidance, 3%-5%, that's a lower number than for Q2, and I actually expect you to continue with that guidance. Has something changed? What do you see? At your capital markets date this spring, got the feeling that you will continue investing in the U.S. with the implication of high OpEx growth for the full remainder of this year. Has something changed in your investment outlook or was this a one-off?

**David Kenyon**
CFO | Kambi Group

No, not really. I think the underlying assumptions haven't changed insofar as we keep investing in our staff for technology to keep increasing our output, and as well in the U.S. to support our commercial operations there. I guess what has changed is actually just the number and speed of certain states regulating and also the fact that actually in some states it's actually going to be slightly lighter touch application and therefore by implication, a slightly lower cost for us. If you look at, for example, Iowa, we don't need to apply for a full license as a supplier. That's one that's coming up in this current quarter. It's really just a slight flexing down on that cost outlook rather than an underlying change at this stage.

**Viktor Högberg**
Analyst | Danske Bank

Okay. Does it reflect that you're disappointed in the rate of regulations in the U.S. as well or?

**David Kenyon**
CFO | Kambi Group

Not really. It was always kind of hard to estimate upfront exactly which states would regulate when actually we're quite pleased that some are coming as we predicted, in line with the NFL season. If you look at Iowa, Indiana and then there are others which are following on fairly close behind and could fall into Q4, could fall into Q1, but it seems to be happening almost as fast as we thought. Yeah.

**Viktor Högberg**
Analyst | Danske Bank

Okay. Last question. Sorry if you already talked about this, but the Stanleybet, the revised contract with them. Could you talk a bit about that only supplying online? To my understanding, retail is quite a large market there as well.

**Kristian Nylén**
CEO | Kambi Group

Yeah, that's correct. I think when we started to look on what we had promised to deliver and what Stanleybet expected from us, it was kind of a big discrepancy, where we couldn't really agree on how to do it. Therefore, I think both parties felt that it was better to drop the retail part for now.

**Viktor Högberg**
Analyst | Danske Bank

Okay. Well, thank you.



Operator

Just as a reminder, if you do wish to ask a question, please press zero one. Our next question is from Christian Hellman, from Nordea. Please go ahead. Your line is open.

**Christian Hellman**
Analyst | Nordea

Hi. Thanks. Well, most of my questions have already been answered. I have one that I'd like to get some color on, and that's Sweden. If you could just give us your thoughts on the Swedish market now post-regulation, incumbents versus the private operators and just sort of versus your own expectations before the regulation, how it's developed and how you see it going forward in terms of sports betting on the scene.

**Kristian Nylén**
CEO | Kambi Group

I think for us, except what I touched before with the under 18 regulations, I think for us it has been very positive experience so far with the Swedish regulation. I think our largest customers are doing quite fine. Bringing ATG into a market has been very good. For us, I would say we are quite pleased with the exception of the uncertainty around the whole under 18 issue.

**Christian Hellman**
Analyst | Nordea

Okay. Yeah, that was it for me. Thanks, guys.

**Kristian Nylén**
CEO | Kambi Group

Thank you.

**Operator**

Our next question is from Anton Wester from Pareto Securities. Please go ahead. Your line is open.

**Anton Wester**
Analyst | Pareto Securities

Hi. I have just one question here. It's about the sportsbooks margin. We have seen the last eight quarters that we have had a sportsbooks margin over 7.5%. Is it improved data tools behind the higher level?

**Kristian Nylén**
CEO | Kambi Group

Not so much. I think to some extent, obviously, we improve the tools and algorithms all the time, but I think it has had more to do with a change in behavior on our customer base. Yeah, for instance, if you take in Colombia, we have massively higher margin because they are mainly betting on more accumulators. You see the Bet Builder product that we launched, it's also quite a high margin product. You see some things, and I have been talking about this for a few quarters, that we are continuously looking at the margin. What we have still are believing is that the U.S. market will have a lower margin. I think that is the main reason we haven't changed the guidelines yet.

**Anton Wester**
Analyst | Pareto Securities

Speaking about the U.S., do you think that the markets which is going to high tax on sports, for example, Pennsylvania, that they will operate with higher sports betting margin to offset the tax?

**Kristian Nylén**
CEO | Kambi Group

No, I don't think so. As long as you have a tax on gross win, I think you're well better off having a competitive product, because in the end, most customers are spending the same amount of money across the month. If you take out a higher hold, they just spend less money.

**Anton Wester**
Analyst | Pareto Securities

Great. Can you just also give us some more details around the sequential turnover growth in Europe?

**Kristian Nylén**
CEO | Kambi Group

What we have seen over years, you get some bumps here and there because of new regulations and things like that. The sequential growth of sports betting in Europe, I would believe will stay around high single digits for online for next coming years. Some up and downs because of large football tournaments.

**Anton Wester**
Analyst | Pareto Securities

Great. Also you mentioned some states in the report, Illinois, Iowa, Indiana, and Tennessee, regarding the potential size compared to New Jersey, for example. Also you mentioned Pennsylvania as big as New Jersey, the other states?



Kristian Nylén
CEO | Kambi Group

Yeah, I think, obviously Iowa is quite a small state. Indiana, decently sized, not close to Pennsylvania, of course, but a decently sized state. Illinois, I think is the fourth largest state in the U.S., so obviously that could be highly attractive. Tennessee, quite a small state. I think what's most interesting with Tennessee is actually that the regulation is not tied to retail. It's more a European model than in other states. That's exciting.



Anton Wester
Analyst | Pareto Securities

Yeah. A rule of thumb, is it like we can say that Indiana half the size of New Jersey, Tennessee the same, and then Illinois bigger than New Jersey?



Kristian Nylén
CEO | Kambi Group

Oh, yeah. Illinois should be one of the largest states that can open up.



Anton Wester
Analyst | Pareto Securities

Yeah. Great. That was all for me. Thank you.



Kristian Nylén
CEO | Kambi Group

Thank you.



Operator

Just as a final reminder, if you do wish to ask a question, please press zero one now. As there are no further questions, I will hand the word back to the speakers for any final comments.



Kristian Nylén
CEO | Kambi Group

Okay. Thank you for your questions and for listening in. We look forward to updating you on the 25th of October when we publish our third quarter results for 2019.