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Kambi Group

Q1 2019



Prepared Remarks



Ladies and gentlemen, welcome to the Kambi Group Q1 Report 2019. Today, I'm pleased to present Kristian Nylén, CEO. 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. Kristian, please begin.



Good morning, welcome to Kambi's first 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 among another strong 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 further U.S. expansion and new product launch. First, on slide three, let me give an 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 700 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. On to slide four. Kambi's business is built upon a revenue share model with our growth dependent on our operator success. The foundation of our strategy is based on scalability, 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, our business is underpinned by our corporate probity and integrity. We are publicly listed and have successfully obtained all licenses we have applied for.



We power more than 20 operators across six continent, including some of the most recognizable and successful brands in the industry. Let's look at the quarterly highlights on slide five. In Q1, we posted revenues of EUR 21 million, a 28% year-on-year increase. Operator turnover was up 46% to an all-time high. Operator trading margin was 7.8%. Kambi added two new customers in Q1, one being Mohegan Gaming & Entertainment. Their casino, Mohegan Sun, is not only one of the largest entertainment destinations in Connecticut, but one of the biggest in the U.S. Kambi will power their sportsbook in Connecticut. As we revealed in our Q4 report in February, we also signed Rhinoceros Operations in Q1. Rhinoceros is a new owner of MyBet, the German-facing sports betting brand. MyBet has already been launched on a Kambi sportsbook platform.



We also launched three on-property sports books in Q1, all with our partner Greenwood Gaming & Entertainment, and all in Pennsylvania. Kambi has gained a market leading retail position in Pennsylvania, and we are looking forward to a regulator permitting online sports betting shortly. I will now hand over to David Kenyon, who will talk you through the financial highlights. Turning to slide six.



Thank you, Kristian. Good morning, everyone. In Q1, we had revenue of EUR 21 million, up 28% on last year. This was driven by the strong level of operator turnover from both existing and new customers, and an operator trading margin of 7.8%. Operating costs for the quarter were EUR 18.4 million, giving an operating profit of EUR 2.6 million at 12.4%. Our cash flow for the quarter, excluding working capital movements, was EUR 1.1 million. The net cash position at the end of March was EUR 33.5 million. Let's look at the income in some more detail, turning to slide seven. This slide sets out what we call the Kambi turnover index. The graph shows the trends of the results generated by Kambi for its operators. The turnover is the total stakes placed with the operators by their end users.



In Q1, we've seen turnover placed with our operators up by 46% on Q1 last year, including growth from our existing operators and from new operators in the U.S. and Sweden in particular. The margin represents the combined trading margin made by the operators. In Q1, this margin was 7.8%. We expect an average long-term operator trading margin in the range of 6.5%-8%. 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 46% compared to Q1 2018. The operator trading margin multiplied by the turnover generates the operator's gross gaming revenue or GGR.



The operator's trading margin of 7.8% compares to the 7.9% we saw last year. Overall, this led to an operator GGR increase of 44% year-over-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. This tax impact has increased significantly, reflecting the increase in the part of our business coming from locally regulated markets, now in Sweden and the U.S. In total, 71% of our revenues derive from locally regulated markets, compared to 50% 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 is 76%.



The net effect of all these factors is that revenue for Q1 2019 is up by 28% on Q1 last year to EUR 21 million. Let's turn to the full income statement on slide nine. Operating expenses for the first quarter were EUR 18.4 million. We continue to invest in building the market-leading sportsbook, as well as the ongoing licensing and development of our commercial operations in the U.S. Looking forward, we anticipate sequential growth in operating expenditure of 4%-6% for each of the remaining quarters of the year. This will be driven to some degree by the speed of regulatory development in the U.S. Operating profit was EUR 2.6 million for Q1, compared to EUR 2 million last year, and profit after tax was EUR 2 million for the quarter, compared to EUR 1.5 million last year. Now let's look at the cash flow on slide 10.



On this slide are the major components which impacted our cash position during the quarter. Our opening cash balance was EUR 38.4 million. Capitalized development costs in the quarter were three and a half million, whilst the amortization charge on previously capitalized costs was EUR 2.2 million. EUR 1 million was received by the group as the option price upon the exercise of share options during the quarter. The net cash inflow for the quarter was EUR 2.4 million, and our closing cash balance was EUR 40.8 million. Now let me pass you back to Kristian, turning to slide 11.



Thanks, David. In March, Kambi signed an agreement with Mohegan Gaming and Entertainment. Mohegan Sun is one of the largest casinos in the U.S. and one of only two casinos in the state of Connecticut, so they have an opportunity to take a large share of the sports betting market. Operated by the Mohegan Tribe of Connecticut, Mohegan Sun is Kambi's first Native American partner. Native American casinos form a large part of the U.S. casino market and therefore is an important target market for Kambi. To form a partnership with one of the largest and most respected shows Kambi can be a trusted partner to Native American tribes. Sports betting could be regulated in Connecticut later this year. There are bills currently in progress to do so.



Until that time, Mohegan Sun is offering Kambi's free-to-play sportsbook, which is a great way to build interest and a customer database ahead of a real money launch. Turning to slide 12. Kambi continues to build out its own property portfolio in the U.S. In Q1, Kambi launched three retail sportsbooks with Greenwood Gaming and Entertainment in Pennsylvania. We detailed the launches of Parx Casino and South Philadelphia Turf Club in the previous report, both of which have grown well since launch. In March, we launched a third sportsbook with Greenwood Gaming at its Valley Forge Turf Club. Kambi now powers five of the eight on-property sportsbooks in Pennsylvania. In Q1, these properties generated more than 80% of the sports betting revenues. We also note the regulator recently said it expects online sports betting to launch in the state in the next few weeks.



Having been active in Pennsylvania since November, Kambi's partners are well-positioned to be among the first out of the gate. Moving to slide 13. Towards the end of Q1, we launched our version of a Bet Builder product, a feature which allows players to place in-game accumulators using selections that are related. Before deciding to build our own Bet Builder, we did consider using third parties, but we felt that Kambi and our customers would gain greater advantage through a proprietary version, predominantly because current products on the market didn't offer players a complete user experience, and building a proprietary version would give us a full control over pricing and risk, and to give our customers the ability to control the user interface through our APIs. We'll shortly be adding in-play functionality, and cash out is also in the pipeline. Now to slide 14.



Since the close of Q1, we have signed and extended the deal with National Lottery of Bulgaria. National Lottery has enjoyed strong growth in Bulgaria since switching to Kambi in early 2018. As well as extending our deal in Bulgaria, the operator will use Kambi to supply the National Lottery of Moldova with its Sportsbook on a monopoly basis. Following a tender process, the National Lottery of Moldova has awarded National Lottery of Bulgaria a 15-year license. We hope to launch online this summer, followed by retail and rollout. In recent weeks, Kambi also won two awards at the EGR North America Awards. The event in Atlantic City saw us win Sportsbook Provider of the Year and Sports Betting Supplier of the Year, which is a great reflection of the quality of the Kambi Sportsbook and the early success we have achieved in the U.S. Now to slide 15.



In summary, Q1 was another great quarter for Kambi, with strong financial performance across the board, including 28% revenue growth. Kambi's global network of customers also continued to grow with operator turnover up 46%. Meanwhile, we continued our U.S. expansion, where we continue to set the standard with three on-property launches and the signing of Mohegan Sun. In general, I'm very happy with Q1 performance. We are looking forward to the rest of the year with confidence. I will now pass over to the operator for questions.

Q&A



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 Kristian.



Hello, can you hear me?



Yes.



Okay, great. Yeah, just a couple of questions on the U.S. In the report, you speak a bit about that it's the state-by-state regulation and the rollout has been somewhat slow as of late, but that you expect it, or you hope at least that it will pick up over the coming months ahead of the NFL, or the start of the NFL season. Can you elaborate a bit on that and perhaps mention some states in particular, apart from Pennsylvania, of course?



Yeah, Kristian, sure. Yeah, I think very much it's based on the experience from last year, where you saw many states really trying to push to get the regulation through before the NFL season start. I expect the same pattern this year, that many states will want to be ready before the NFL season. I think in fact, what you saw after the NFL season last year that it was slowing down their efforts to get it through up until now. I think this is a sweet spot the next coming months where things will happen in the states that will go live before the NFL season.



Yeah, sorry, do you have some sort of tangible signs of that apart from the fact that that was the case last year? What are you sort of seeing in the market out there?



No, I wouldn't say so. I think it usually goes very fast when some states are passing the bill. No, I don't have any tangible things to give you here. States we believe are likely New York, only for retail. Then I think states like Connecticut, Ohio, Michigan, Iowa, Indiana is states that could very well pass legislation in advance of the NFL seasons.



Right. In those states that you mentioned, do you have potential partners or sort of tangible discussions with potential partners ongoing at this moment, or are you missing other states that you are not in discussions with?



I would say we have discussions ongoing in every state. In some of the states we obviously already have a partner signed up, like in Connecticut with Mohegan.



Right. What about in Ohio or Indiana, for example?



As I said, we have ongoing discussions in all of these states and many others.



All right. Could you talk a bit about the Swedish regulation and what you've seen from that? You have the ATG as a new client, and you also have some of the ones that have been around in Sweden for a time before that, like Kindred, of course, and others. Could you just mention a couple of words on Sweden Q1?



Yeah, I think for us, Sweden has been very positive. I don't think we see so much of the effects of bonusing as maybe our gaming verticals. It's really hard for us to evaluate what is what here. We have brought on ATG as a new customer, of course, and that's a big player coming into the market. Obviously, that's a player that will take market shares from other operators. It's a little bit hard to separate the effects here, what is because of regulation and what is because a new large player is coming into the market.



I understand that. On MyBet in Germany, which launched, I don't know, a month ago maybe, or a while ago. That sounded like a really interesting signing when you announced it. Could you perhaps share a few words on MyBet?



Yeah. We still see it as a very interesting signing. It is very early days. I wouldn't say that they have so far really pushed for products. It is too early days to give an indication if this will be successful or not.



Okay. The cost guidance, you did say it was between 4% and 6% quarter-on-quarter going forward, correct?



That's correct, yeah. I think last quarter we said 5%-7% first half, then going down to 3%-5% second half, quarter-on-quarter. I think really it's a reshaping of that guidance driven by the speed of regulatory rollout in the U.S.



Okay.



Well, a little bit weighted in towards second half versus the first half, really. In Q1, we came in at 5%, we guided 5 to 7.



Okay



towards 6% in the second quarter.



The office in Södertälje, is that up and running now, or is that going to impact Q2 perhaps a bit more?



It is the lease signed. We'll be opening the doors shortly and starting with our first staff there. Yeah, the costs were included in that guidance for the second quarter. It's not a huge office. It's probably approximately a 30-man office. Yeah, that cost is included in the guidance.



Yep. Okay, great. Just a final question, the general pipeline, both Europe and U.S., could you perhaps share a few words on the potential new customer pipeline that you have at this present day compared to perhaps three months ago, six months ago, or a year ago, just to give us some sort of feeling for where you're at right now in terms of potential new customers coming in?



Sure. I would say the focus is very much on Americas. That includes both U.S. and Latin America. I would say where you can really expect signings is mainly in the U.S. and in Latin America. Maybe not so much in Europe in the near future.



Okay. In terms of ongoing discussions, on the same level as it was six months ago, or do you have more discussions or less?



I think it's looking really, really good at the moment.



Okay, great. Thanks. That's it for me.



Thank you.



The next question comes from the line of Victor Huijber from Kempen & Co. Please go ahead.



Yeah, hi. Good morning. I dropped the line, so you have to stop me if I ask a question that was already asked. Regulated revenues, I see they increased 15 percentage points over Q4. You've added Sweden since then, or Sweden has regulated, and then you have some U.S. growth. Would it be fair to assume that your Swedish exposure is around 13%?



We can't be too specific, we didn't make that kind of level of detail, the kind of geographical split. You can say the increase in tax is fairly evenly split between Sweden and the U.S., so you can calculate backwards to somewhere near that number.



Okay. Regarding Sweden and free bets, Kindred had a large amount of free bets here in Q1 with the new bonus scheme. Could you say something about the amount of free bets that you are taking on that Kambi has to swallow? What is the cap for free bets?



It's very different between different operators. I can't really give you any details, but you can see, we are giving you some indication on the impact of taxes and the incentives we are taking on. I can assure you that the major part of that pile is the taxes and not the incentives.



Okay. Could you talk a bit about the Finnish tender for Veikkaus? According to the reports that I've read, you were not interested in that one. Is that correct? Because SBTech took the contract.



Yeah, of course, we were interested in Veikkaus, but the terms and the product demands given in the tender was not very suitable for us. Yes, we did not actually proceed and reply to the tender.



Okay. It's not that you lost it, the terms were unfavorable for you guys?



Yes.



Okay.



That's correct.





Regarding competition in the U.S., what can you say about U.S. competition existing sportsbook or existing suppliers or maybe new entrants? Have you seen anything change of late?



Not really. I think it's very much the same playing field as it was a year ago. Of course, it's a fierce competition, but I think we have positioned ourselves as the leading supplier, and I think we have a very good opportunity to win more deals going forward.



Okay. On U.S. sports betting, I think you mentioned that Super Bowl was the largest event in terms of turnover for you guys ever.



Yes.



Larger than the World Cup last year. Could you say something about the I guess some Europeans bet on the Super Bowl as well. Was it 95% Americans betting on that one?



Oh, no. I would say that even before U.S. opened up, Super Bowl was a very popular event. The American football season may not be so popular week to week in Europe, but Super Bowl is an event that is followed very well in Europe as well. Of course, it's a massive event in U.S., but I would say it's a large event in Europe as well.



Okay. The incremental increase in betting was not solely from U.S. bettors. It was the added U.S. bettors from the European.



Exactly.



Okay, great. Thank you very much.



Thank you.



The next question comes from the line of Hjalmar Ahlberg from Kepler. Please go ahead.



Hi. Just first a question on Pennsylvania now going online. Looking at the New Jersey, the fantasy sports players, FanDuel and DraftKings took a strong position. When FanDuel is looking to launch also in Pennsylvania, I guess online, how do you think the competition will be there compared to New Jersey? Do you have any guesses on that?



The guesses. The fantasy providers, they have a fantastic database to start from. They will be big players in every single state that they go into. Having said that, I think both Parx and Rush Street, they are household names with their casino brands in major cities such as Philadelphia and Pittsburgh. I think they have a good opportunity to take a decent chunk of the market in Pennsylvania.



Okay. I see. I don't know if you have any insight in that, but FanDuel seems to be growing a bit faster than DraftKings now in New Jersey. Do you have any insight on what's drove that in March, or is it just difficult to say?



Yeah. First of all, I think it's more a question to DraftKings than to Kambi.



Yeah



it's also hard to analyze exactly what. It's still too early days, a few very big high rollers can change the pattern quite significantly.



Yeah. I see. Just the last question on Mohegan Sun. You said you saw significant potential in the long term here. Is that because you see that you can do quite good revenue with only land-based on this casino, or is that also including an online potential long term?



Yeah. For sports betting, long term, I think online will be much larger than retail for every operator.



Yeah.



The interesting thing here is that there are only two casinos in the whole state of Connecticut. I don't know how the legislation will pan out, but there is an opportunity that it will only be two licenses, and then they have a fantastic opportunity, of course.



Okay. Got it. Thanks a lot.



Thank you.



We have a follow-up question from Kristian Hellman from DNB. Please go ahead.



Hi. Just a follow-up recap on Pennsylvania, which is going online here over the next couple of weeks and months. Which partners do you have contracts with currently that will, or most likely will operate in the Pennsylvania? Because DraftKings is one of them, right?



No, currently, we have three partners that have either operate in retail already or have signed market access deals, and that is Rush Street Interactive, it's Parx, and it's Kindred.



Right. Okay, great. Thanks.



Thank you.



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



Okay. Thank you for the questions and for listening in. We look forward to updating you on the 24th of July when we publish our second quarter results for 2019.



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

