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Kambi Group

Q4 2018



Speakers



Christian Hellman
Analyst | Nordea



David Kenyon
CFO | Kambi Group



Hjalmar Ahlberg
Analyst | Kepler Cheuvreux



Kristian Nylén
CEO | Kambi Group



Operator



Analyst

Prepared Remarks

**Operator**

Ladies and gentlemen, welcome to the Kambi Group Q4 Report 2018. Today, I'm 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. Afterwards, there will be a question and answer session. I will now hand you over to Kristian Nylén. Please go ahead.

**Kristian Nylén**

CEO | Kambi Group

Good morning, welcome to Kambi's fourth quarterly result presentation. I am Kristian Nylén, Chief Executive. 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 a successful fourth quarter for Kambi, after which David will take you through the numbers. I will speak about the quarter in a little bit more depth, including some detail on our preparations for what has been a busy period for our retail organization. First, on slide three, let me give you a brief introduction to Kambi. Kambi is a 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 approximately 700 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 a host of managed services, enabling our customers to offer their players the leading sportsbook experience on the market. On to slide four. Kambi's business is built around a revenue share model, with our growth dependent on our operators' 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 the licenses we have applied for.

**Kristian Nylén**

CEO | Kambi Group

We power more than 20 operators across the six continents, including some of the most recognizable brands and successful brands in the industry. Let's look at the quarterly highlights on slide five. The fourth quarter produced record results. We posted revenues of EUR 21.7 million, a 14% year-on-year increase. Operator turnover was up 42% to an all-time high. Operator trading margin was again above our long-term expected average at 8.5%. The quarter brought to an end Kambi's best year to date. Revenues for the full year 2018 was EUR 76.2 million, a 23% increase on 2017. Operating profit for the year was EUR 12.7 million, a 65% increase, illustrating the momentum we have in the business. We launched three on-property sportsbooks in Q4, one with DraftKings in Atlantic City in New Jersey, and two with Rush Street in Pittsburgh and Philadelphia, as we made our debut in Pennsylvania.

**Kristian Nylén**

CEO | Kambi Group

Just as we did in New Jersey, Kambi has quickly gained a market-leading position in Pennsylvania. Kambi added another customer during Q4 in Greenwood Gaming and Entertainment, our eighth customer signing of 2018. Greenwood Gaming owns Parx Casino, the largest gaming complex in Pennsylvania, as well as off-track betting facilities in the state. In January, we went live with Greenwood Gaming in Parx Casino and the South Philadelphia Turf Club in the space of eight days. Meanwhile, we also received two further licenses in the U.S. for Mississippi and Pennsylvania, adding to our New Jersey and West Virginia licenses. I will now 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 Q4, we had revenue of EUR 21.7 million. This was driven by the strong level of operator turnover from both existing and new customers and an operator trading margin of 8.5%. The full-year revenue was 23% higher than last year, at EUR 76.2 million. Operating costs for the quarter were EUR 17.5 million, giving an operating profit of EUR 4.2 million at 19%. For the full year, operating costs were EUR 63.5 million, and operating profit was EUR 12.7 million at 17%.

**David Kenyon**

CFO | Kambi Group

This represents an increase of 65% on last year. Our cash flow for the quarter, excluding working capital movements, was EUR 2.8 million and EUR 8.6 million for the full year. The net cash position at the end of December was EUR 31.1 million. Let's now look at the income in some more detail, turning to slide seven. This slide sets out what we call the Kambi Turnover Index.

**David Kenyon**

CFO | Kambi Group

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 Q4, we've seen turnover placed with our operators up by 42% on Q4 last year, including underlying growth from our existing operators and from new operators in the U.S. in particular. The margin represents the combined trading margin made by the operators. In Q4, this was 8.5%. It is in the nature of the business for the operator trading margin to fluctuate between quarters, depending on the results of certain sporting events. We guide that the expected long-term average is 6.5%-8%. This quarter was boosted by favorable results in some of the major European football cup competitions, such as the Champions League and Europa League.

**David Kenyon**

CFO | Kambi Group

We can see the conversion from operator turnover growth to our revenue growth on slide eight. Operator turnover was up by 42% compared to Q4 2017. The operator trading margin multiplied by this turnover generates the operator's gross gaming revenue or GGR. The operator trading margin of 8.5%, although high, was well behind the exceptionally high 9.7% in Q4 last year. Overall, this led to an operator GGR increase of 25% year-on-year. Kambi's commission is based on a percentage for the operator's net gaming revenue, which is after the deduction of gaming tax and certain marketing incentives. I would note that this tax impact is likely to increase in future quarters as the part of our business coming from regulated markets continues to rise, for example, in Sweden and the U.S. In the last 12 months, we've extended contracts with many of our largest operators for the long term.

**David Kenyon**

CFO | Kambi Group

They all grew significantly since their original contract signing, the terms of the renewals generally reflect this growth. In aggregate, this has had an impact on our revenue conversion, this, along with the fixed part of our revenues and certain volume-related commission tiers, is shown in the other column of the graph. The net effect of all these factors is that revenue for Q4 2018 is up by 14% on Q4 last year to EUR 21.7 million. Let's turn to the full income statement on slide nine. Operating expenses for the fourth quarter were EUR 17.5 million. This quarter, we include a share of the loss from operations totaling EUR 75,000 in relation to our investment in Virtus Sports. We also continued to invest in the licensing and marketing of our commercial operations in the U.S.

**David Kenyon**

CFO | Kambi Group

Looking forward, we anticipate growth in operating expenditure of 5%-7% for each of the first two quarters of the year. We currently expect the cost growth to increase at a lower rate for the remainder of 2019, although we may choose to invest more to capitalize on new market opportunities, such as more new states opening up. Operating profit was EUR 4.2 million for Q4 and EUR 12.7 million for the full year, compared to EUR 7.7 million last year. Profit after tax was EUR 3.3 million for the quarter and EUR 9.8 million for the full year, compared to EUR 5.9 million last year. Now 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 38.2 million.

**David Kenyon**

CFO | Kambi Group

Working capital decreased in the quarter by EUR 2.6 million, reflecting an increase in trade debtors as our revenues grow, as well as certain other timing differences. Capitalized development costs in the quarter were EUR 3.1 million, whilst the amortization charge on previously capitalized costs was EUR 1.8 million. The net cash inflow for the quarter was EUR 0.1 million and our closing cash balance, EUR 38.4 million. Over the course of the full year, our cash position increased by EUR 4 million. Now let me pass you back to Kristian. Turning to slide 11.

**Kristian Nylén**
CEO | Kambi Group

Thanks, David. Although we have provided a retail product to a number of our customers for many years, we're opening up our U.S. market as well as our signing of ATG in Sweden, means we are now providing retail at a much larger scale than we have ever been accustomed to. To meet this increased demand, we launched an initiative to ensure we would not only deliver the highest quality retail product, but we would do so with great speed and efficiency, ensuring our customers could launch a sportsbook to their timetable and with a product their players would love. This preparation included the strengthening of our hardware supply chain with third-party providers, the localization of a product for specific markets. The deployment of Kambi retail expertise and the training of customer staff in back-office functionality and bet acceptance procedures.

**Kristian Nylén**
CEO | Kambi Group

Thanks to the hard work of all involved, in the space of nine weeks, which stretched into Q1 2019, Kambi launched five on-property sportsbooks in the U.S. and across 2,000 retail stores in Sweden with ATG. This has demonstrated, without a doubt, our ability to execute multiple retail sportsbook launches to a tight timeframe. To do so with a market-leading product, which I will talk about on the next slide. Turning to slide 12. Kambi is focused on ensuring our customers are able to offer their players the best products, whatever channel we decide to bet through. The increased focus on the retail channel has enabled the Kambi retail solution to stand out for a number of reasons. The self-service betting terminal, or kiosks, as they are called in the U.S., have quickly become an important channel for American players to place their bets.

**Kristian Nylén**
CEO | Kambi Group

Such is the popularity of our kiosks, our customers have had to order greater numbers just to meet the increased demand. We are fast approaching 100 kiosks in operation across our five U.S. retail locations. Kambi remains one of the few to offer kiosks in the U.S., and we are the only supplier to do so in Pennsylvania. Considering the fact that more than half of our U.S. retail bets are placed via these terminals, we believe a high-quality kiosk is a must for any operator in the market. Next is our fully customizable digital signage, which enables operators to meet local player needs. Just like our main sportsbook product, operators have full control over signage, for instance, over how it looks and what markets are displayed. Our signage provides both pre-match and live odds, with in-play scores currently being rolled out.

**Kristian Nylén**
CEO | Kambi Group

Meanwhile, our bring-your-own device technology has been launched by our customers in Pennsylvania. Both Parx Casino and Rush Street have leveraged our technology so players can view odds and build their bet slips from anywhere in the state, which then create QR codes for quick and easy bet placement at the sportsbook property. We are seeing usage rise week on week as players prefer to view odds before visiting the cashier. We have also seen queuing times at sportsbook fall due to a quick bet placement process. This product is unique to the market, and we believe it will prove popular in other markets, particularly those that are reluctant to regulate online betting.

**Kristian Nylén**
CEO | Kambi Group

When considering other factors such as depth of offer, unique in-play markets, speed of settlement, and intuitive UX, we believe Kambi has the industry-leading retail product and one which has proven can be delivered in a matter of weeks. Moving to slide 13. As mentioned, in Q4, we signed Greenwood Gaming and Entertainment, the highest grossing casino in Pennsylvania. Greenwood Gaming selected Kambi in part for our strong track record in integrity and corporate probity. On January 8th, the Kambi Sportsbook was launched at Parx Casino, and within seven days, the sportsbook was unveiled at the operator's South Philadelphia Turf Club, which is situated in the heart of the city's professional sports complex. In the coming weeks, we will also launch together at the Valley Forge Turf Club, also in Pennsylvania.

**Kristian Nylén**
CEO | Kambi Group

As with all Kambi customers in Pennsylvania, an online sportsbook will be launched as soon as the state regulator gives the regulatory go-ahead. On to slide 14. In parallel to our U.S. efforts, Q4 saw Kambi prepare for the launch of a newly re-regulated Swedish gaming market. The market went live on January 1st, at which point we were able to launch in 2,000 retail stores with ATG, the country's most popular betting brand. To launch across many shops simultaneously is again testament to the work and preparations we put into our retail delivery and is another example of our expertise in this area. At the same time, Kambi also helped support six other customers with their licensing and launch, with these operators accepting bets under the new framework just minutes after midnight. Now to slide 15.



Kristian Nylén

CEO | Kambi Group

Earlier this month, Kambi signed its first customer of the year, Rhinoceros Operations Limited, the new owners of a popular German sports betting brand, mybet. Mybet was withdrawn from the German market in the fall of 2018 due to insolvency of its previous owners. However, under the new management and with Kambi Sportsbook, we believe there is a potential for mybet to recover its prominent online market position. We expect to relaunch the mybet brand in H1 2019, while the deal also includes a provision to launch sports betting with other brands under the same ownership. While the U.S. is a key focus area for Kambi, these deals chosen will remain open and to attractive growth opportunities in Europe and further afield. Now to slide 16. In summary, Q4 ended what was a fantastic year for Kambi. The operational highlight was us proving beyond doubt our retail capability.



Kristian Nylén

CEO | Kambi Group

Launching five U.S. sportsbooks and across 2,000 retail stores in the space of nine weeks is a great achievement. We also signed Parx Casino, the highest grossing casino in Pennsylvania. The year was our strongest yet and ended with our revenues being up 23% year-on-year and operating profit up 65%, illustrating our consistent performance and continuing momentum. Having demonstrated our online and retail capability, Kambi is well positioned to replicate our earliest U.S. success in additional states and set a standard globally. We have entered 2019 in great shape, and I'm confident for the year ahead. Now, I will pass over to the operator for questions.

Q&A



Operator

Thank you. Ladies and gentlemen, if you do wish to ask a question, please press zero one on your telephone keypad now. Please hold while questions are being registered. Our first question comes to the line of Christian Hellman from Nordea. Please go ahead.



Christian Hellman

Analyst | Nordea

Hi, thank you. The first question, I missed the cost guidance. Could you just repeat that, please?



David Kenyon

CFO | Kambi Group

Hi, I said we're looking at probably 5%-7% quarter-on-quarter increase for the first two quarters, then it's likely to decrease for the rest of the year on a quarter-on-quarter basis.



Christian Hellman

Analyst | Nordea

Right. Thank you.



David Kenyon

CFO | Kambi Group

I'll give you a little bit more color on that. It's really driven by two things. It's headcount, but it's also the new office we're looking at in Philadelphia at the end of Q1. Obviously in Q2 onwards, we'll see an impact from that.



Christian Hellman

Analyst | Nordea

Yep.



David Kenyon

CFO | Kambi Group

Headcount.



Christian Hellman

Analyst | Nordea

That was my second question.



David Kenyon

CFO | Kambi Group

Yeah.



Christian Hellman

Analyst | Nordea

Okay, great. Thank you. Just on retail, which you're spending quite a lot of time on during the presentation, can you elaborate a bit on, first off, how much of your revenues are coming from retail at the moment, or what you see going forward in terms of retail on a group level? Also a bit on the economics and the margin on the retail product versus your online product, how we should see that?



Kristian Nylén

CEO | Kambi Group

Yeah. Still revenues from retail is quite small. How it will look in the future, it's a little bit tricky to say because I think the most important part of retail is being able to gain customers who already have a retail presence and will be strong in online as well, such as ATG, for instance. More importantly in the U.S., you will probably see a rollout of retail well ahead of online in many states. Therefore, the significance of having a strong retail product will be very important. However, long term, I still believe the online is the main revenue stream for us.



Christian Hellman
Analyst | Nordea

Right. It's sort of like a product that you need to have to sort of, I don't know, secure a client so they don't go with anyone else. You sort of already have a good relationship with them when the online domain opens up. Is that how you should sort of see retail perhaps?



Kristian Nylén
CEO | Kambi Group

Yes. Long term, absolutely. Having said that, I believe you will see, especially until online is opening up, and you saw that in New Jersey as well, that retail are bringing high GGR as long as there is not competition from online.



Christian Hellman
Analyst | Nordea

In terms of economics, I guess the operator sort of pays for the kiosks and everything, or how is the sort of [audio distortion]?



Kristian Nylén
CEO | Kambi Group

That's correct. The economics is very similar for us as to the online business. The operator are responsible for the kiosks and the hardware servicing, and also for any staffing in the casinos.



Christian Hellman
Analyst | Nordea

Right. There is some third parties provider of these.



Kristian Nylén
CEO | Kambi Group

Yes.



Christian Hellman
Analyst | Nordea

You're not sort of assembling them yourself, I assume.



Kristian Nylén
CEO | Kambi Group

We are not, no.



Christian Hellman
Analyst | Nordea

No. A bit on the U.S., during the Q3 report or shortly after there, in an interview, I believe it was that revenues from the U.S. was maybe 5% or perhaps a tad below, but in that facility in Q3. We have a full quarter of sports betting action in New Jersey. Could you elaborate a bit on how big the U.S. was for you guys in Q4, like ballpark?



Kristian Nylén
CEO | Kambi Group

We haven't given that figure. There is official reports both from New Jersey and Pennsylvania. I think you could figure out decent accurately where we are at it, we have chosen not to give any figures at this point.



Christian Hellman
Analyst | Nordea

Okay, thank you. With just one final question on mybet there. It was a strong brand previously in Germany, is it possible to elaborate a bit more on that, where it was sort of, I don't know, was it the top five or top 10, or just to give some more color on how big it could become if everything works out for the new sort of relaunch of it.



Kristian Nylén
CEO | Kambi Group

Yeah. Historically, it's definitely been a top five brand in the German market.



Christian Hellman
Analyst | Nordea

All right.



Kristian Nylén
CEO | Kambi Group

There is potential.



Christian Hellman
Analyst | Nordea

Yeah.



Kristian Nylén
CEO | Kambi Group

On the other hand, it didn't end as a top five brand, we will see.



Christian Hellman
Analyst | Nordea

This is well-funded now. They're backed by a lot of marketing money.



Kristian Nylén
CEO | Kambi Group

I hope so. We'll see.



Christian Hellman
Analyst | Nordea

Yeah. Okay, great. Thanks. That was it for me.



Kristian Nylén
CEO | Kambi Group

Thank you.



Operator

Thank you. Our next question comes to the line of Hjalmar Ahlberg from Kepler Cheuvreux. Please go ahead.



Hjalmar Ahlberg
Analyst | Kepler Cheuvreux

Thank you. I just wonder if you could comment on the U.S., if you have any strategy for which states you are targeting, or you're more or less following your customers, or are there any states that you prefer, maybe larger ones, or ones where you see less competition, or do you have any strategy that you can comment on?



Kristian Nylén
CEO | Kambi Group

Yeah, I think we are targeting every single state in the United States, I will say. I think obviously you have more focus on the ones that you believe is closer to regulation. Also of course, you are always looking at the largest states, such as California, for instance. I would say, yeah. The ones that we definitely believe have a chance to have in 2019 has a very strong focus at the moment.



Hjalmar Ahlberg
Analyst | Kepler Cheuvreux

Okay. I see. I was wondering if you could comment anything on Sweden, if you have seen any. I mean, the market is now regulated, if you have seen any change in the behavior or any change in the volumes from your clients in Sweden.



Kristian Nylén
CEO | Kambi Group

It's very hard to have a good view on this at the moment. Last January, the margins was extremely high. It's really tough to compare because it's not really apples to apples. So far, I think what we guess at least is that it's a very positive development so far.



Hjalmar Ahlberg
Analyst | Kepler Cheuvreux

Okay. That is for me. Thanks.



Kristian Nylén
CEO | Kambi Group

Thank you.



Operator

Thank you. Our next question comes to the line of [Bo Jeransson] from ABG. Please go ahead.



Analyst

Hello. First of all, I just want to state that these questions are from Erik Moberg, who unfortunately aren't available at the moment. First of all, it appears like the growth of the underlying business is accelerating. Could you give us any sort of indication on how much your so-called old contracts contributed to turnover growth and how much new customers contributed?



David Kenyon
CFO | Kambi Group

Hi, we can't give an exact split on that. That's not something we disclose at this stage, but it's fair to say that there's growth elements from both the U.S. and also the underlying growth from the existing operator base. We haven't given a split, but it's growth in both areas, which we're very pleased about.



Analyst

Okay, thank you. Regarding EBIT, we're really starting to see the operating leverage coming through. What sort of contribution on EBIT did Colombia have in Q4?



David Kenyon
CFO | Kambi Group

I'm told that's pretty much driven by one client in particular. We can't really comment on what one country can contribute. Again, we're pleased, as we've mentioned before, I think that customer have developed really well, Corredor and [BetPlay]. Yeah, very pleased with the numbers, but we can't disclose exactly what that is.



Analyst

Okay.



David Kenyon
CFO | Kambi Group

As usual, we'd say that most of the revenues do of course come down to EBIT. It's not much of a cost base in that country per se.



Analyst

Okay, thank you. Looking at the New Jersey market in 2019, how do you think that the market dynamics will change with more operators up and running?



Kristian Nylén
CEO | Kambi Group

I think probably I've seen the majority of operators that will be operating during 2019. There will be a few more entrants, I still think some of the big ones will probably compete better on the product side later in the year. Having said that, I still think the market will grow from where we are and I think our customers have positioned themselves very well. For us, I think it's looking very positive.



Analyst

Great. My last question is, in terms of the Pennsylvania market, when relating that to the New Jersey market, what type of market size is fair to assume?



Kristian Nylén
CEO | Kambi Group

Yeah. Pennsylvania is clearly a larger state than New Jersey. Long term, I definitely think it's a bigger market when it comes to GGR. However, you have to think the tax rate in Pennsylvania is significantly higher. Both for us and the operators, that will have a big effect on what is actually coming down to revenues.



Analyst

Okay, great. Thank you. That's all from me.



Kristian Nylén
CEO | Kambi Group

Thank you.



Operator

Thank you. Our next question is a follow-up from Christian Hellman. Please go ahead.



Christian Hellman
Analyst | Nordea

Hi, thanks. Just a question on the sportsbook margins in the U.S. sort of comparing it to the group. Could you elaborate a bit on that? I believe that the margins in the U.S. are lower, but if you could confirm that, perhaps.



Kristian Nylén
CEO | Kambi Group

Yeah. It's too short time period to give a clear answer on this. I have said before, and I still believe that the types of sports and bet offers that are mainly betted on in the U.S., we have a lower theoretical margin also. Typically, we believe that the margin should be lower in the U.S. than in Europe.



Christian Hellman
Analyst | Nordea

Okay.



Kristian Nylén
CEO | Kambi Group

It's very early days, and a few results have a very big impact still.



Christian Hellman
Analyst | Nordea

I thought it was the case in Q4 at least.



Kristian Nylén
CEO | Kambi Group

Yeah.



Christian Hellman
Analyst | Nordea

Yeah. Okay. Adjusting for that, your European sportsbook margin, which was comparable to what you did in Q4 2017, was higher than 8.5%?



Kristian Nylén
CEO | Kambi Group

Yeah, the European Sportsbook margin was higher than 8.5%.



Christian Hellman
Analyst | Nordea

Yeah. Okay. Just a question on a comment that you stated in the CEO word in the beginning of the report that you're confident that Kambi can remain on an upward trajectory throughout 2019. What sort of the basis for that? Is that for more U.S. states to open up, or what are the factors that sort of make you state that?



Kristian Nylén
CEO | Kambi Group

I think we have certainly a much stronger portfolio of customers going into new year. Some with high potential to grow, especially with U.S. opening up, of course, but also bringing in customers like ATG. The second part of it is that, there is more and more market opportunities opening up around the world. You see more potential regulations happening in U.S., in Latin America, and even in Europe, you see things happening now.



Christian Hellman
Analyst | Nordea

Yep. Okay, fair enough. Just the final one on Pennsylvania. For Pennsylvania to open up online, what sort of the base case now? It's somewhere in Q2, I guess, but what should we expect?



Kristian Nylén
CEO | Kambi Group

Yeah. I can't answer. I don't really know. It is a regulatory process. If you look in Europe, your guess is as good as mine when.



Christian Hellman
Analyst | Nordea

No, it's not. Is Q2 a sort of base case or?



Kristian Nylén
CEO | Kambi Group

Yeah.



Christian Hellman
Analyst | Nordea

Just a guess.



Kristian Nylén
CEO | Kambi Group

Yeah, I think it's possible at least. I think you have the one date that will be very important in the U.S. is when the American football season starts. Hopefully it happens before that, but I think that is probably the date that most regulators are aiming at.



Christian Hellman
Analyst | Nordea

Early September.



Kristian Nylén
CEO | Kambi Group

Yeah.



Christian Hellman
Analyst | Nordea

Okay. Thank you very much.



Kristian Nylén
CEO | Kambi Group

Thank you.