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Kambi Group

Q3 2018



Speakers



Christian Hultman
Analyst | Nordea



David Kenyon
CFO | Kambi Group



Erik Moberg
Analyst | ABG



Hjalmar Ahlberg
Analyst | Kepler Cheuvreux



Kristian Nylén
CEO | Kambi Group



Operator



Victor Hogberg
Analyst | Pareto Securities

Prepared Remarks

**Operator**

Ladies and gentlemen, welcome to the Kambi Group Q3 report 2018. 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, afterwards there will be a question-and-answer session. Speakers, please begin your meeting.

**Kristian Nylén**

CEO | Kambi Group

Good morning, welcome to Kambi's third quarter results 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 very successful third quarter for Kambi, after which David will take you through the numbers. Then I will speak about the quarter in a little bit more depth, including our continued progress in the U.S. 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 such as web, mobile, and retail terminals. Our service is managed from an in-house developed platform, which has been continuously developed over the last decade. The platform, together with our 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 through to odds compiling, customer intelligence, risk management, and customer empowerment capabilities, 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 also operate an experienced in-house trading and risk management team to optimize operator trading margin. While our business is underpinned by our corporate probity and integrity, we are publicly listed and have successfully obtained all licenses applied for.

**Kristian Nylén**

CEO | Kambi Group

We now power 22 operators, including some of the most recognizable and successful brands in the industry. Let's look at the quarterly highlights on Slide five. The quarter produced good results for Kambi. We posted record revenues of EUR 20.5 million, a 39% year-on-year increase. Operator turnover was up 31% to an all-time high, making Q3 2018 the first Q3 where turnover increased sequentially during the year with a major summer football tournament, which has a greater impact on Q2. Our operator trading margin was again above our long-term expected average at 8.6%. The inherent scalability of our business model can be seen in our operating margin of 20%. Despite the fact revenues increased significantly, much of our cost base is fixed, therefore, our operating margin was higher than in previous quarters this year. We added three new customers during the quarter.

**Kristian Nylén**

CEO | Kambi Group

In the Q2 report, we detailed the July signings of Latvijas Loto and ATG. Since then, we have also added Global Gaming, further strengthening the Kambi network. We have now signed seven customers in 2018, and the interest in Kambi continues to grow. In August, Kambi created history when processing the first legal online bet in the U.S. post-PASPA. The bet was struck in New Jersey with our partner DraftKings, and we have since launched with Rush Street Interactive's SugarHouse brand and 888sport. We are powering three of the eight online sportsbooks in the state, giving us a dominant position in the market. 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 Q3, we had revenue of EUR 20.5 million. This was driven by the strong level of operator turnover from both existing and new customers and an operator trading margin of 8.6%. Operating costs were EUR 16.3 million, giving an operating profit for the quarter of EUR 4.2 million. Our cash flow for the quarter, excluding working capital movements, was EUR 3.3 million, and our net cash position at the end of September, EUR 30.8 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 Q3, we've seen turnover placed with our operators significantly up on Q3 last year.



David Kenyon
CFO | Kambi Group

The level of operator turnover saw contributions from the latter stages of the football World Cup. Underlying growth from our existing operators and from new operators both in the U.S. and the rest of the world. It's very positive that we have bucked the usual trend we see in the Q3 after a major football tournament, circled here in 2014 and 2016, where we have previously seen a decrease in operator turnover in the quarter. This year, we would have achieved growth from Q2 to Q3 even without the launch in the U.S. The margin represents the combined trading margin made by the operators. In Q3, this margin was 8.6%. It's in the nature of the business for the operator trading margin to fluctuate between quarters, depending on the results of sporting events. We guide that the expected long-term average is 6.5%-8%.



David Kenyon
CFO | Kambi Group

This quarter was boosted by favorable results in the latter stages of the World Cup and in some of the major European football leagues. We can see the conversion from operator turnover growth to our revenue growth on Slide eight. Operator turnover was up by 31% compared to Q3 2017. The operator trading margin, multiplied by the turnover, generates the operator's gross gaming revenue or GGR. The operator trading margin of 8.6% was well ahead of Q3 last year, leading to an overall operator GGR increase of 51% year-over-year. Kambi's commission is based on a percentage of the operator's net gaming revenue. In the last 12 months, we've extended contracts with many of our largest operators for the long term. They all grew significantly since their original contract signing, and the terms of the renewals generally reflect this growth. In aggregate, this has had an impact on our revenue conversion.



David Kenyon
CFO | Kambi Group

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 Q3 2018 is up by 39% on Q3 last year to EUR 20.5 million. Let's turn to the full income statement on slide nine. Operating expenses for the third quarter were EUR 16.3 million. This demonstrates the scalability in our business model, where the large majority of our cost base is fixed. The costs increased in line with our guidance from last quarter, despite the significant increase in revenues. This led to a large increase in operating profit from EUR 1.1 million last Q3 to EUR 4.2 million this quarter. Profits after tax is EUR 3.3 million, compared to EUR 0.8 million last year. We can see more information about our cost base on slide 10.



David Kenyon
CFO | Kambi Group

Here we see an illustration of the areas where we invest our money. The large majority of our expenditure, shown as the top part of the illustration, is on the day-to-day costs of continuing to develop and run a market-leading sportsbook, which benefits all of the operators we work with. In addition to this, there are specific initiatives. For example, we work continually on the existing offering for all of our operators in areas such as increasing operator differentiation capabilities and improving the player experience for our product, as well as increasing automation and sharpening the risk management capabilities, which benefit the accuracy and scalability of our operations. Another important area for us is developing the channels on which we can offer our product. Specifically, the ability to offer our market-leading product on retail terminals. This is a key part of maximizing our addressable market.

**David Kenyon**
CFO | Kambi Group

In terms of market expansion, we work constantly to ensure our product is ready to serve new markets as commercial opportunities and regulations develop. This comprises the technical development of the product and the costs of obtaining and maintaining licenses and certifications, as well as making sure that the product is tailored to the relevant market. Of course, we spend time and money on integrating new customers from a technical and operational perspective. We see very exciting opportunities ahead, and we will continue to invest to capitalize upon them. For Q4, we anticipate growth in operating expenditure of 5%-7%. Now let's look at the cash flow on slide 11. Set out on this slide are the major components which impacted our cash position during the quarter. Our opening cash balance was EUR 35.4 million.

**David Kenyon**
CFO | Kambi Group

Working capital decreased in the quarter by EUR 0.6 million, reflecting an increase in trade debtors as our revenues grow. Capitalized development costs in the quarter were EUR 2.2 million, whilst the amortization charge on previously capitalized costs was EUR 2.1 million. Overall, the net cash inflow for the quarter was EUR 2.8 million and our closing cash balance, EUR 38.2 million. Now let me pass you back to Kristian. Turning to slide 12.

**Kristian Nylén**
CEO | Kambi Group

Thanks, David. In Q3, Kambi made its debut on the U.S. market. Following the repeal of PASPA, New Jersey was one of the first states to launch a regulated framework and the first to launch online. With our partner, DraftKings, Kambi was the first to process a legal online bet in the U.S. outside of Nevada, a seismic moment in the sports betting industry. The fact Kambi was the first to launch online in New Jersey is a testament to our ability to quickly comply with local regulations. Due to our commitment to integrity and corporate probity, as well as our history of speedy integrations and delivery, Kambi has become the trusted choice for operators across the world. It's worth highlighting that by mid-September, we were live with three online operators in New Jersey, all with differentiated products.

**Kristian Nylén**
CEO | Kambi Group

Meanwhile, some of our competitors have yet to launch a digital product for their partners. According to recent figures published by the New Jersey regulator, Kambi's three customers had a combined online market share of more than 70% in September. DraftKings is currently the clear market leader, while Rush Street Interactive, which launched Sportsbook with its Casino SugarHouse brand, is the third largest in terms of revenues. SugarHouse launched the Kambi Sportsbook after MGM launched its Sportsbook. Yet in September, amassed five times the revenue and more than double that of MGM and Caesars combined. Turning to slide 13. Although much of attention is on the U.S. market, we continue to grow in Europe, and in Q3, we signed three new customers in Europe. We detailed the signings of ATG and Latvijas Loto in the Q2 report, both of which we signed in July.

**Kristian Nylén**
CEO | Kambi Group

In August, we added Global Gaming, a rapidly growing gaming operator, which is listed on the Nasdaq First North. Global Gaming has enjoyed recent success with its Ninja Casino brand. Moving on to slide 14. Shortly after the close of Q3, we signed a commercial partnership with White Hat Gaming, a provider of platform gaming and managing services. The agreement adds a further platform option for prospective Kambi customers. With our agnostic platform approach, empowering operators to choose the solution that is best meeting their needs. The agreement also enable White Hat Gaming customers to offer a Kambi Sportsbook where appropriate and strategically viable. On to slide 15. Following the early success of New Jersey, other U.S. states are understandably keen to regulate and launch sports betting. Kambi recently obtained a permit in West Virginia, and we are in advanced stages of licensing process in Pennsylvania and Mississippi.

**Kristian Nylén**
CEO | Kambi Group

In New York, the regulatory process is on hold until after the midterm election next month. We expect the market to go live in 2019, but what form regulation may take is still unclear. There are a few possible outcomes with currently unknown whether licenses will be restricted to a small number of casinos or whether online betting will be allowed. However, in each scenario, Kambi is well-positioned to take a strong position in the market. Due to the nature of state-by-state regulatory process in the U.S., the market is unlikely to reach its full potential for a number of years. That said, it was interesting to see the launch of sports betting on a property of a tribal casino in New Mexico before the launch of a regulatory framework in the state.



Kristian Nylén
CEO | Kambi Group

The tribal casino was able to launch sports betting due to a compact it had in place with the state in which sports betting is permissible. This potentially opens up opportunities for other tribes with similar compact agreements in place in other states. In a similar vein, the advanced regulatory situation in Washington, D.C., where betting could be live in H1 2019, also took us a little bit by surprise due to the speed in which it has progressed. While some states may move slowly, it will be a case that others expedite the regulation of sports betting. Now to slide 16. Earlier this month, we flew a team out to Las Vegas for the annual G2E show, which is one of the largest gaming exhibitions in the world. Following the full repeal of PASPA this year, this year's exhibition had a strong emphasis on sports betting.



Kristian Nylén
CEO | Kambi Group

Kambi invested in a sizable presence at G2E as part of a larger branding initiative to strengthen our brand awareness and reputation within the markets. On stand we were able to present our online and land-based products to prospective customers, current customers, regulators, and media. Meanwhile, off stand a large number of productive meetings with current and prospective customers were held. I was also in Vegas for the show, and the interest I saw in Kambi was unprecedented, with feedback very positive. It was also pleasing to see the traction the Kambi brand has already gained in the U.S., with many senior executives recognizing Kambi for its quality and delivery in New Jersey. I was confident in our chances of success in the U.S. prior to G2E. Sure.



Kristian Nylén
CEO | Kambi Group

I'm even more convinced Kambi is well-positioned to become a number one choice for operators looking for a high quality and trusted sports betting partner. Now on to slide 17. To recap, the third quarter was the best in Kambi's history, recording strong turnover growth and delivering our highest ever revenues. We also expanded into the U.S., where we took the first legal online wager post-PASPA. The future looks bright with more U.S. states to regulate over the next few years and interesting development in other markets globally. Kambi is a market leader in the countries and states it currently operates in, and I believe we are in a very good position to replicate that success as new markets are opening up. I will pass over to the operator for questions.

Q&A

**Operator**

Thank you. Ladies and gentlemen, if you'd have a question for the speakers, please press zero one on your telephone keypad now. First question is from Erik Moberg from ABG. Please go ahead, your line is open.

**Erik Moberg**

Analyst | ABG

Hi, guys. Good morning, congratulations on a strong report. You mentioned that roughly 5% of revenues stem from the U.S., if we look at the operator turnover index, how much would you say that U.S. constituted?

**Kristian Nylén**

CEO | Kambi Group

What is mentioned is that we would have been growing the operator index quarter by quarter, even without the U.S. Actually, I haven't mentioned any figure of 5%. It is a good assumption though, it's roughly in that area.

**Erik Moberg**

Analyst | ABG

Would that be similar levels at the operator turnover index?

**Kristian Nylén**

CEO | Kambi Group

That was what I was referring to.

**Erik Moberg**

Analyst | ABG

Okay

**Kristian Nylén**

CEO | Kambi Group

in the other call.

**Erik Moberg**

Analyst | ABG

Okay. If we look at Q4, how much would be fair to assume that new customers will contribute?

**Kristian Nylén**

CEO | Kambi Group

I think looking at Q3, we were only operating from the 6th of August, I think. You have one more full month, and a little bit more. Also, basketball hadn't started in Q3, I think you should expect a positive growth from the U.S. market for us.

**Erik Moberg**

Analyst | ABG

Okay. If we look at the monthly data that is published by New Jersey regarding gross generated revenue, how much of this came from bets that's been made in conjunction with games that take place later on during the year?

**Kristian Nylén**

CEO | Kambi Group

They didn't give a number for that in September. In August, of the GGR in August, I think it was more than 50% that was not settled.

**Erik Moberg**

Analyst | ABG

Okay.



Kristian Nylén
CEO | Kambi Group

If you're looking at September, the large part of that August turnover was settled in September. I think you're getting to a figure that is more in line with the actual figure from September and going on forward.



Erik Moberg
Analyst | ABG

Okay, that makes sense. Also in regards to the Sun International and Corredor, you're up and running online, what's the status regarding the rollout for the retail product?



Kristian Nylén
CEO | Kambi Group

In Colombia, it is actually only an online regulation. That is what we are planning to do in Colombia for foreseeable future. Having said that, Corredor is working very much with the customers coming into the retail stores, helping them out on online. With Sun, I think something on retail is very possible to happen during 2019.



Erik Moberg
Analyst | ABG

Would that be H1 2019 or during the second half, do you think?



Kristian Nylén
CEO | Kambi Group

I don't want to comment on that at the moment.



Erik Moberg
Analyst | ABG

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



Kristian Nylén
CEO | Kambi Group

Thank you.



Operator

Next question is from the line of Christian Hultman from Nordea. Please go ahead, Christian, your line is open.



Christian Hultman
Analyst | Nordea

Hi, thanks. Just a couple of questions on the customers that you've recently signed but haven't yet launched. ATG, for example, I'm guessing that you're planning to go live with them 1st of January, or what's the timeframe there?



Kristian Nylén
CEO | Kambi Group

I think that's a very likely assumption.



Christian Hultman
Analyst | Nordea

Yeah.



Kristian Nylén
CEO | Kambi Group

It will certainly not be earlier, at least.



Christian Hultman
Analyst | Nordea

No, for sure. That was perhaps an obvious question. The other ones, Global Gaming and Casumo you signed a while ago, but you haven't launched that one yet. What are the timeframes for Global Gaming and Casumo to go live?



Kristian Nylén
CEO | Kambi Group

Global Gaming, I think is also very likely to go live with the Swedish regulation opening up. Casumo, I can't give you a timeline for.



Christian Hultman
Analyst | Nordea

Okay. What happened with Casumo? Because they came before the summer.



Kristian Nylén
CEO | Kambi Group

Yeah, I guess that's more a question to Casumo than us, actually.



Christian Hultman
Analyst | Nordea

Okay. Okay, fair enough. On White Hat, could you elaborate a bit on their footprint and where you think they will help you to grow and find new clients?



Kristian Nylén
CEO | Kambi Group

First of all, I think White Hat, they have a very different operating model to most other platforms we have been working with. They are more of a white labeling company, they manage everything for our customers. Everything actually from licensing to operating the business with call center CRM, payments, fraud, and so on. They have a few decently sized casino operators that I think are likely customers for us for the near future. We will see from there.



Christian Hultman
Analyst | Nordea

In terms of geographical markets, are they primarily dominant in Europe, or do they have business in the U.S., or where are their clients located?



Kristian Nylén
CEO | Kambi Group

It's predominantly Europe at the moment, especially I think U.K. is large for them.



Christian Hultman
Analyst | Nordea

Okay. All right. Just a question on the cost guidance. You're guiding for 5%-7% sequentially into Q4. Could you say anything on 2019? With a lot of things happening in the U.S., I'm guessing you're thinking about opening an office there perhaps. Is it possible to say anything about 2019 in terms of costs?



David Kenyon
CFO | Kambi Group

We can't give specific guidance. We're not giving you a number at this stage. Yeah, you can imagine that, as we talked about, there are lots of opportunities in the U.S., we will spend what we need to capitalize on them. Yeah, that could potentially include opening an office and putting some staff there to really capitalize on our opportunities.



Christian Hultman
Analyst | Nordea

Right. Balancing that in relation to you getting some scale and leverage in the business, do you think you'll perhaps build costs more than 7% quarter-on-quarter next year if you have to open up an office and that sort of stuff?



David Kenyon
CFO | Kambi Group

Just to be clear, when we talk about an office, it's not going to be a huge office for us. It's more of a post where we can have some sales representation, customer support, and some trading expertise. We're not talking a massive office here. As I said, I'm not going to give a whole number for 2019, but that will be a small contributor to any growth.

**Christian Hultman**
Analyst | Nordea

Just a final question on your general pipeline. You are obviously very bullish after the G2E show in Vegas on long-term opportunities in the U.S. Could you give just a general view of your current client pipeline if you look at the European market and also perhaps including the U.S.? You previously said that it was super strong and then signed ATG and a few others. Is it still looking very good if you look at the European market, or are there any ones left?

**Kristian Nylén**
CEO | Kambi Group

Yeah, I think it is looking good. Obviously, I would say the focus is turning a little bit more towards the U.S. at the moment for very good reasons. Having said that, in the last quarter, we actually signed three customers in Europe. It is not like we are not continuing working on the European market. I feel very bullish about the pipeline. However, you also have to remember that now we are getting in more to the situation where we are starting looking into states outside of New Jersey, and then the regulatory situation will have an impact on the timelines. It is a little bit tricky to say the exact date of it.

**Christian Hultman**
Analyst | Nordea

It is not in your hands, really.

**Kristian Nylén**
CEO | Kambi Group

Yeah.

**Christian Hultman**
Analyst | Nordea

Final question just on Sweden with the tax being implemented there from January. Can you give some sort of guidance on your exposure? I mean, Kindred is your largest customer, but can you give some sort of guidance on how this will impact you in Q1?

**David Kenyon**
CFO | Kambi Group

Yeah. All I'd probably say at this stage is that if you look at the waterfall, I think that might have a slight shape to it as we move into 2019. I think you'll probably see a slightly larger impact on the taxes and marketing deductibles column in that revenue conversion. We'll probably give when the market opens up, we can be a bit more clear exactly what the impact is. I'd say just anticipate bigger impact from tax moving into 2019.

**Christian Hultman**
Analyst | Nordea

Yeah, I do. I'm just sort of

**David Kenyon**
CFO | Kambi Group

I can give you a number today

**Christian Hultman**
Analyst | Nordea

I'm trying to understand if this is Sweden, if it's from stated revenues from Kindred and all the other operators that are present in Sweden, if that sort of adds up to 10% or 20% of your group revenues or where we are, just ballpark.

**David Kenyon**
CFO | Kambi Group

You obviously can tell from Kindred that we still say that is more than 50% of our revenue. That gives you a decent rule of thumb. I cannot give you a very exact number for confidentiality reasons.

**Christian Hultman**
Analyst | Nordea

Oh, okay. I will have to do some guessing work here.



David Kenyon
CFO | Kambi Group

Yes, please.



Christian Hultman
Analyst | Nordea

Thank you. That is it for me. Thank you.



Operator

Next question is from Victor Hogberg from Pareto Securities. Please go ahead. Your line is open.



Victor Hogberg
Analyst | Pareto Securities

Hi, guys. I have a follow-up question on the OpEx growth guidance into Q4. I won't hold you to any numbers, but I saw an interview with Kristian a couple of weeks ago where he said that this sequential increase of 5%-7% would persist for foreseeable future. How would you define a foreseeable future? Is that 2018, 2019, not 2020? Or how should we see that? Looking one year ahead, if it would increase 5%-7%, there would be 20%-30% OpEx increase into Q3 2019. Would that be a fair assumption, somewhere between or?



Kristian Nylén
CEO | Kambi Group

I think the rationale or reason why we have started to look at the higher cost increase is obviously U.S. I wish I knew better than I do about how quickly different states will legislate. It's a big unknown for us as well. What you can be sure of is that if the opportunities isn't there from a revenue point of view, there is no point for us to grow the revenues much faster either.



David Kenyon
CFO | Kambi Group

Also, when I presented earlier, I talked about that we were investing in. I highlighted different parts of the business we're investing in. It was improving the product, it was developing new channels, it was developing new markets, it was integrating new customers. They're all revenue driving. These are the areas we're spending money. It's to capitalize on these opportunities.



Victor Hogberg
Analyst | Pareto Securities

Yeah, sure. What would you say in general from what you know now, when you go into new states or when you would enter a new state in the U.S., the lag for a cost cover?



Kristian Nylén
CEO | Kambi Group

I'm highly surprised at how fast it went in New Jersey. If that's how it will be in other markets, I think it will be a very little lag. What is against that is if you get states that only regulate for retail, we will get a much slower pace of that, of course. If online is regulating directly, you will see very instant revenue growth as well.



Victor Hogberg
Analyst | Pareto Securities

Okay. Regarding new states, I know it's not clear yet the physical presence that would be required for entering a given state. What would you say, is it like signing a new client would have to EUR 250,000 up to half a million EUR for a new client or a new state in the U.S., would that be a fair assumption?



Kristian Nylén
CEO | Kambi Group

No, I don't think you should assume that the client matches any cost because if DraftKings or Rush Street want to go into a new state, the cost is already taken there. It has more to do with the state rather than an additional customer.



Victor Hogberg
Analyst | Pareto Securities

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



Kristian Nylén
CEO | Kambi Group

Thank you.



Operator

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



Hjalmar Ahlberg
Analyst | Kepler Cheuvreux

Hi. Thanks. Just want to check if you have any information about DraftKings that's not very strong in New Jersey. Do you know if they have a lot of users from there in their existing database, or is that it is grabbed in other states in U.S. as well?



Kristian Nylén
CEO | Kambi Group

I think I don't have a full overview of their database, of course, but they have been very successful and the leading brand in most states where you can operate daily fantasy sports. I would expect that they have a great customer base in most states they're going into.



Hjalmar Ahlberg
Analyst | Kepler Cheuvreux

Okay, thanks. Then just on the sports margin, would you see any difference long term when you get more U.S. exposure? Is the sports margin same in this market compared to other markets in the world?



Kristian Nylén
CEO | Kambi Group

I would say it's way too early to say. This year, what we have seen so far is very good margins, but I think the result in especially American football has been very favorable as well. It's too early to give a good answer on that question, I would say.



Hjalmar Ahlberg
Analyst | Kepler Cheuvreux

Okay. That's it from me. Thanks.



Kristian Nylén
CEO | Kambi Group

Thank you.



Operator

There are currently no further questions registered, so I'll hand the call back to the speakers. Please go ahead.



Kristian Nylén
CEO | Kambi Group

All right. Thank you for the questions and for listening in. We're looking forward to update you on the 13th of February when we publish the fourth quarter results of 2018. Thank you.



Operator

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