

April 25, 2018

## **Kambi Group**

Q1 2018



## Speakers



**Christian Hellman**

Senior Equity Research Analyst | Nordea



**David Kenyon**

CFO | Kambi Group



**Kristian Nylén**

CEO | Kambi Group



**Operator**



**Rasmus Engberg**

Analyst | Handelsbanken



**Viktor Hebert**

Analyst | Berita

## Prepared Remarks

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**Kristian Nylén**

CEO | Kambi Group

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 the quarter, after which David will take you through the numbers. I will then speak about the quarter in a little bit more depth, and as usual, a Kambi initiative, which this quarter focuses on the summer's World Cup. Following the presentation, we will open up for questions. First, on slide three, let me give you a brief introduction to Kambi. Kambi is a premium turnkey sportsbook 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.

**Kristian Nylén**

CEO | Kambi Group

The platform, together with our 620 highly skilled staff, forms the foundation of our service. The Kambi Sportsbook is formed of multiple elements. From front-end user interface through to odds compiling, customer intelligence, risk management, and customer empowerment capability. We currently offer our service to 17 operators spread across six continents, making us a truly global sportsbook provider. Let's look at the quarterly highlights on slide four. The year has started well for Kambi, with Q1 producing quarterly revenues of EUR 16.4 million, a 15% year-on-year increase. Operator trading margin for the quarter was 7.9%, a figure above our long-term expected average. We added a new customer in Casumo. Casumo is one of the fastest-growing and most innovative gaming companies in Europe. Key to the deal was the flexibility of our platform and its ability to empower operators to innovate, we are delighted to have Casumo on board.

**Kristian Nylén**

CEO | Kambi Group

After Q1, we signed our 17th customer in Stanleybet Romania. The addition of Stanleybet to the Kambi network is significant for a number of reasons, which we will discuss later in the presentation. The signing makes it 10 consecutive quarters in which we have signed at least one new customer and shows the momentum the business continues to build. The quarter also saw us make a strategic investment in Virtus Sports, an early-stage virtual sports supplier. Adding virtual sports to the Kambi offering is something we have been considering for some time, in Virtus Sports, I believe we have found the right product at the right size. I will now hand over to David Kenyon, who will talk you through the financial highlights, going to slide five.

**David Kenyon**

CFO | Kambi Group

Thank you, Kristian. Good morning, everyone. In Q1, we had revenue of EUR 16.4 million. This was driven by a strong operator trading margin at 7.9%. Operating costs were EUR 14.4 million, giving an operating profit for the quarter of EUR two million. Our cash flow for the quarter, excluding working capital movements, was EUR 0.6 million, and our net cash position at the end of March was EUR 28.9 million. Let's now look at income in some more detail. Turning to slide six. 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 on Kambi's sports betting service. In Q1, we've seen turnover placed with our operators slightly down on Q1 last year.

**David Kenyon**

CFO | Kambi Group

The level of operator turnover was suppressed by the much stronger operator trading margin in Q1 this year due to the correlation between these two metrics. There was also an impact on operator turnover from the particularly strong operator trading margin we saw in Q4 and the start of Q1, as there is typically a time lag between margins decreasing and operator turnover picking up. The margin represents the combined trading margin made by the operators. In Q1, this margin was 7.9%. It's in the nature of the business for the trading margin to fluctuate between quarters depending on the results of sporting events. We guide that the expected long-term average for the operator trading margin is 6.5%-7%. We can see the conversion from operator turnover growth to our revenue growth on slide seven. Including FX impact, operator turnover fell by 3% compared to Q1 2017.

**David Kenyon**  
CFO | Kambi Group

The operator trading margin, multiplied by the turnover, generates the operator's gross gaming revenue. The operator trading margin of 7.9% was well ahead of Q1 last year, leading to an overall operator GGR increase of 25% year-on-year. As part of our revenue model, we share certain costs with our operators. These can include player incentives such as free bets and betting duties. In the quarter, the Belgian courts ruled that online license holders should not be subject to VAT, which will have a positive impact on our revenues going forward in the range of EUR 0.1 million-EUR 2 million per quarter. We also read yesterday of a new policy idea in Norway. For us, Norway represented less than 10% of our total operated turnover in Q1. It is very early stages, but we will monitor the situation closely. Kambi's commission is based on a percentage of the operator's NGR.

**David Kenyon**  
CFO | Kambi Group

To promote growth, some of the customer contracts include tiers with lower commission rates on the higher levels of the sports betting revenues. This, along with the fixed parts of our revenues, is shown in the other column of the graph. The other column also includes the impact of the 888 contract extension signed in July last year. This is the last quarter where we will see this year-on-year negative impact. The net effect of all these factors is that revenue for Q1 2018 is up by 15% from Q1 last year to EUR 16.4 million. Let's turn to the full income statement on slide eight. Operating expenses for the first quarter were EUR 14.4 million, up by 3% from Q4.

**David Kenyon**  
CFO | Kambi Group

Operating expenses are forecast to increase in Q2 by 3%-5% compared to Q1 as we continue to invest in the future to ensure we maintain our technical and market leadership. Overall, in Q1, profit from operations is EUR 2 million compared to EUR 1.4 million last year, and cost after tax is EUR 1.5 million compared to EUR 1.1 million last year. Let's look at the cash flow on slide nine. Set out on this slide are the major components which impacted our cash position during the quarter. Our opening cash balance on the 1st of January was EUR 34.3 million. Working capital increased in the quarter by EUR 1.6 million, reflecting a decrease in debtors due to the particularly high level of trade debtors at the end of Q4. Capitalized development costs in the quarter were EUR 2.1 million, whilst the amortization charge on previously capitalized costs was EUR 2 million.

**David Kenyon**  
CFO | Kambi Group

We also invested EUR 0.6 million in acquiring 25% of Virtus Sports, an early-stage virtual sports company whose offering will complement the Kambi Sportsbook in due course. The net cash inflow for the quarter was EUR 2.2 million, and our closing cash balance was EUR 36.3 million. Now let me pass you back to Kristian, turning to slide 10.

**Kristian Nylén**  
CEO | Kambi Group

Thanks, David. As I touched on earlier, in Q1, we signed our 16th customer, Casumo. Casumo is one of the most innovative gaming operators in the industry and will use Kambi to bring its social, fun, and entertaining experiences into the sports betting vertical. To do so, Casumo will leverage our open APIs to build upon the Kambi Sportsbook, an ability which is unique to the market. Casumo is on track to launch a football-focused product before this summer's World Cup, which will target a large group of football fans who don't ordinarily bet. Being able to house and power a brand such as Casumo alongside our more traditional sports betting brands reflects the flexibility of the Kambi platform and its ability to service operators of all types. Now on to slide 11.

**Kristian Nylén**  
CEO | Kambi Group

Last week, we signed Stanleybet Romania, one of the most recognizable sports betting brands in the Romanian market. Stanleybet holds the top three position on the Romanian high street, with more than 300 shops. Their rollout will begin in 2019. Stanleybet also has an online presence, which will move across to the Kambi Sportsbook this year. All being well, the online launch should take place before the World Cup. This is a significant deal for Kambi for a number of reasons. Primarily, Stanleybet Romania's sizable retail business. It's the third largest operator on the high street. This will give us the ability to showcase the strength of the Kambi retail product on a large scale and provide us with a good proof point moving forward. In addition, Stanleybet has a strong sports betting heritage.



**Kristian Nylén**  
CEO | Kambi Group

Sports is a core product, the fact that we were selected by Stanleybet above many suppliers speaks to the quality of our sportsbook. Moving on to slide 12. In February, we made a strategic investment in virtual sports data Virtus Sports. In recent years, virtual sports has become an important part of the sportsbook offering. As a result, we have observed a growing appetite among our customers to offer a virtual sports product. With this investment, Kambi can provide a fully integrated service. Furthermore, the deal creates the value of Virtus Sports, with them gaining access to the Kambi customer list. Overall, I believe Virtus Sports will strengthen the Kambi Sportsbook, improve our offering to our current and existing customers, make us more attractive proposition to the current and future customers, and provide a good return on investment. Turning to slide 13.



**Kristian Nylén**  
CEO | Kambi Group

The World Cup kicks off in Russia in around 8 weeks' time. Kambi has been busy preparing for one of the world's biggest sporting events. Kambi as a business has experienced tremendous growth since 2014 World Cup. We now have around double amount of customers, many of whom have prominent market positions within many of the competing nations. As such, we are committed to delivering a market leading experience to each customer in every market they operate. For the players, this may be the first time they have used a Kambi powered sportsbook. We have been working hard to ensure they have every box ticked come June 14th. For instance, we will be launching a number of market firsts for the World Cup, some of which we are currently in the final stages of testing.



**Kristian Nylén**  
CEO | Kambi Group

We also understand that the World Cup is more than just the 64 matches. For operators, the weeks leading up to and following the World Cup are also very important. This is why in February, when we gathered our operators together for our annual Kambi operator summit, we demonstrated how they can best leverage the Kambi platform to make the most of World Cup before, during, and after the tournament. We did this because Kambi is much more than just a sportsbook supplier. We aid our customers with services such as real-time play data feeds, customer acquisition tools, and expansive widget capabilities, open APIs, and many other resources to ensure they are able to make the most of the Kambi platform. On to slide 14. To recap Q1, it was a very successful quarter for Kambi with a 15% rise in revenue.



**Kristian Nylén**  
CEO | Kambi Group

We signed another new customer in Casumo, and with Stanleybet Romania added in Q2. That's at least one new customer in each quarter for the past two and a half years. The business has great momentum, and through our scalable model and flexible platform, we are very well positioned to capitalize on market development such as the opening of new markets. Most notably, we are of course focused on what's happening in the U.S. Now we will open up for questions.

## Q&A

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**Operator**

Thank you. Ladies and gentlemen, if you do wish to ask a question, please press zero followed by the one on your telephone keypad. One moment for the first question. Thank you. Our first question comes from Christian Hellman from Nordea. Please go ahead. Your line is open.

**Christian Hellman**

Senior Equity Research Analyst | Nordea

Hi, Christian Hellman from Nordea. Just a question on volume versus sportsbook margins. If you could just talk a bit about that and how that sort of impacted the quarter. The sportsbook margin was very high in Q4. I guess players lose their money, don't have much to gamble with in Q1, and maybe their confidence is low, et cetera, and sort of how that's impacted Q1, and how you saw that develop during the quarter and maybe perhaps also into Q2.

**Kristian Nylén**

CEO | Kambi Group

Yes. Thank you, Christian. As I said before, we still struggle to have an exact measure of elasticity between turnover margin, but it has a significant impact. I made a comparison with just a simple roulette example last quarter, where I said that if you go to a roulette table with SEK 100 and decide to bet on red and win, you can double up the next time, then you lose, and you have turned over SEK 300. If you lose the first time, you just turned over SEK 100 with exact same result in the end. I guess that is the biggest impact when it comes to the turnover and margin. I don't think it's so much about the customers losing confidence or customers stop betting.

**Kristian Nylén**

CEO | Kambi Group

I think it's more about being able to use the same amount of money several times when the margin is lower. I believe that the turnover would have been much higher given a normalized margin. You have to be very clear as well, Q1 last year was one of the worst quarters, which will get the double effect in the year-on-year comparison.

**Christian Hellman**

Senior Equity Research Analyst | Nordea

Right. On turnover.

**Kristian Nylén**

CEO | Kambi Group

Yeah, exactly.

**Christian Hellman**

Senior Equity Research Analyst | Nordea

Anything on the start of Q2, is that possible to comment on?

**Kristian Nylén**

CEO | Kambi Group

We have chosen never to comment on it because it affects many of our customers who also list it. I leave our operators to comment on the opening of Q2.

**Christian Hellman**

Senior Equity Research Analyst | Nordea

Fine. Just to look back at Q2 last year, Q2 was relatively weak last year in terms of the margin. Could you say something about how it was during April, May, June last year? Just to refresh my memory.

**Kristian Nylén**

CEO | Kambi Group

Yes. As you said, I think the margin was unlike what it was in Q1 last year. I think it was 6.3% if I remember well. Obviously we hope to have a much higher margin, and on top of that it's also a World Cup. Yeah. I expect also to be able to have both a higher margin and a high turnover than last year.



**Christian Hellman**

Senior Equity Research Analyst | Nordea

Yeah, sounds reasonable. Just another question on Norway, which caused quite a big stir in the online gambling sector yesterday with some news out about Norway potentially issuing IP blocks or some sort of measure at least in regards to foreign operators. Could you comment a bit on that and how that could potentially impact you, and knowing that Kindred is your largest customer and they have business in Norway?



**Kristian Nylén**

CEO | Kambi Group

Yeah. It's very early stages. The only thing that was issued yesterday was more or less a possible decision on the 7th of May to investigate possible IP blocking. Having said that, as David communicated earlier, if that were to happen, the turnover Kambi had from Norwegian customers in Q1 was less than 10%.



**Christian Hellman**

Senior Equity Research Analyst | Nordea

Okay, great. Sorry, I missed that comment. Less than 10% in Q1.



**Kristian Nylén**

CEO | Kambi Group

Yeah.



**Christian Hellman**

Senior Equity Research Analyst | Nordea

Just finally on PASPA, the law in the U.S., nothing new yet. When could we potentially hear something about that? Are there any dates that we should sort of be aware of?



**Kristian Nylén**

CEO | Kambi Group

I think you're almost in a situation where most dates are important, but I think Mondays every fourth week are most important potential dates. I think also, like yesterday, there were some things coming out from the Supreme Court. Yeah, I can't give you any special dates, but we and everybody else in the industry expect the decision before the end of June.



**Christian Hellman**

Senior Equity Research Analyst | Nordea

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



**Kristian Nylén**

CEO | Kambi Group

Thank you.



**Operator**

Thank you. The next question comes from Viktor Hebert from Berita. Please go ahead, your line is open.



**Viktor Hebert**

Analyst | Berita

Yes, good morning, guys. Could you talk about or elaborate a bit about Stanleybet Romania. What kind of levels were you on? What's the split between retail and online, and what kind of potential do you expect from this signing?



**Kristian Nylén**

CEO | Kambi Group

Yeah, thank you. I think it's fair to say that it's a vast majority of the current income is in retail, which will not impact the figures at all until 2019. The impact for this year I would say is not very big. I think for this year, what really excites us about this deal is obviously that we have found the first customer to roll out retail in a larger scale, and I think that will have a very positive effect on future sales opportunities.



**Viktor Hebert**

Analyst | Berita

Yeah, of course. Does that entail something for you to gear up your hirings? What's your investments to be able to roll out large scale retail operations for next year?

**Kristian Nylén**  
CEO | Kambi Group

We are not operating the hardware. For us, it's more about building the capability, and that's something we have been building on since 2011. You don't need to expect any hirings at all because of it.

**Viktor Hebert**  
Analyst | Berita

Okay, great. Just to make sure about the 888 renewal. In Q1 you saw the last hit from last year. Was that around 3% in the drop-through from the other posts there?

**David Kenyon**  
CFO | Kambi Group

Yeah, that's right. Absolute amounts are around EUR 0.5 million. Yeah, around 3% in the other column in the waterfall. Yeah.

**Viktor Hebert**  
Analyst | Berita

Do you have any updates? In last quarter, you said you're investigating the longer-term sports margins expectations from 6.5% to 7%, you were looking to possibly raising it. Have you gone any further in your investigations?

**Kristian Nylén**  
CEO | Kambi Group

We're still investigating. I think it keeps on being very strange months. It's really hard to get conclusive evidence. We don't have a new guidance yet. I hope to possibly have something to conclude next quarter.

**Viktor Hebert**  
Analyst | Berita

Okay, great. Going back to costs. Last quarter, you guided, I think 3%-5%, and your costs grew sequentially with that amount, and now 3%-5% again. Is this a sequential growth rate to be expected going forward this year and long-term? What are you seeing in terms of hirings and other OpEx?

**David Kenyon**  
CFO | Kambi Group

Certainly for this year, I'd say yes. I think typically we're going to be guiding around 3%-5% per quarter as we take on new staff, particularly on the development front. Longer term, we'll see, but I hope it may come down slightly from those levels on a quarterly basis long-term. Certainly for this year, certainly Q2, we're looking at complementing 3%-5%.

**Viktor Hebert**  
Analyst | Berita

Okay. Last question. Do you see any material effects from getting the legacy Stan James players onto the Unibet brand?

**Kristian Nylén**  
CEO | Kambi Group

I would say that it's not a big impact either way since we also now have moved the Unibet Racing customers over to the new Kindred Racing platform. The total is a very small impact.

**Viktor Hebert**  
Analyst | Berita

Okay, that's helpful. Okay. Thank you very much.

**Operator**

Thank you. As another reminder, to register for a question, it's a zero followed by the one on your telephone keypad. Thank you. Our next question comes from Rasmus Engberg from Handelsbanken. Please go ahead. Your line is open.

**Rasmus Engberg**  
Analyst | Handelsbanken

Yes. Hi, good morning. Just wanted to ask you, since you mentioned Norway, would it be fair to assume that Sweden is slightly more than twice that exposure, given you got both Kindred and some other clients that are stronger in Sweden? Is that something you can comment on?



**Kristian Nylén**  
CEO | Kambi Group

No, I refuse to. We choose to give you some guidance of Norway at this point. No, I feel we shouldn't give you more guidance than this.



**Rasmus Engberg**  
Analyst | Handelsbanken

Okay. All right. Thanks.



**Operator**

Thank you. There appear to be no further questions. I return the conference back to you.



**Kristian Nylén**  
CEO | Kambi Group

Thank you. Thank you for your questions and for listening in. We look forward to updating you again on the 25th of July when we publish our second quarter results for 2018.