July 27, 2016

Kambi Group

Q2 2016

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MODULAR FINANCE

Prepared Remarks

Good morning, and welcome to Kambi's second quarter result presentation. I am Kristian Nylén, Chief Executive, and joining me is our CFO, David Kenyon. Please turn to slide two. I will go through the highlights of the quarter, David will give a financial update, and then I will talk about the Euro 2016, our new customer signing, and a current Kambi initiative. After the conclusion of the presentation, we will open up for questions. But 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 493 highly skilled staff, forms the foundation of our service.

Our service encompasses a broad offering, from front-end user interface through to odds compiling, customer intelligence, and risk management. We currently offer our service to 12 operators, most of whom are outperforming the market. So let's look at the quarterly highlights on slide four. Q2 shows significant growth in comparison to the same period last year, and our operator turnover increased by 46% year on year, which led to 28% revenue growth for Kambi. The Euro 2016 tournament was a major contributor to the strong performance. Euro 2016 was a success for Kambi, both financially and operationally, and our Euro offering contributed to 11% of our operator turnover. I will go into more detail later in the presentation. Again, we proved our capabilities to smoothly add new operators. LeoVegas, Rank Group, and Mr Green were, as promised, all integrated ahead of Euro 2016.

The joint effort and commitment made the implementation process fast. The HTML5 client is now available for all operators, allowing them to take advantage of a front-end technology with a multitude of differentiation possibilities. This commitment to the user experience for our customers reads through to favorable financial performance. We now have a solid foundation where both Kambi and its operators continuously can develop new innovative features. Yesterday evening, Kambi also added R. Franco to its customer portfolio. I will give some more detail about R. Franco later in the presentation. I will now hand over to David, who will talk you through the financial highlights. Turning to slide five.

Thank you, Kristian. Good morning, everyone. Revenue for Q2 2016 was EUR 13.7 million, up 28% on the Q2 2015 figure. This was driven by a significant increase in the turnover of our operators, which I'll look at in more detail later. This brings the revenue for the first half year to EUR 26.9 million, up 30% from last year. Operating profit for the quarter was EUR 2 million, at a margin of 14%, up from EUR 0.8 million last year. For the first half year, the operating profit is EUR 3.9 million, at a margin of 15%, compared to EUR 1.6 million in 2015. Our cash flow, excluding movements in working capital for the quarter, was EUR 0.1 million. And for the first half year, the cash flow was EUR 1.5 million, compared to EUR 1.2 million last year. The net cash position at the end of June was EUR 20.3 million.

In summary, we have continued to see outstanding growth in the operators we work with. This, in turn, has driven our financial performance. Let us now 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 on Kambi's sports betting service. The margin represents the combined profit margin made by the operators. In Q2, we see a high level of turnover placed with the operators we support, up 46% from Q2 2015. In the last few quarters, we have seen a step change in operator turnover, and we are happy that we have been able to build on this in Q2.

This quarter, the overall operator margin was around 6.2%, below the long-term average. We have seen volatility in the match results this quarter, with a large number of favorites winning in the main football leagues, where we also typically operate with a high level of paybacks. However, the Euro 2016 tournament showed significantly higher margins. These movements in turnover and margin impacted the part of our revenue which is commission, based on profits generated for our operators. Our operator contracts include certain tiers of commission rates, which can vary as their business grows, with lower rates on the highest part of the revenues. This aligns the interests of Kambi and its operators to grow their business. Our income also comprises some fixed fees and charges linked to the number of live events being provided.

The net effect of all these was to increase our income by 28% compared to Q2 last year. Let us look at the full income statement on slide seven. Operating expenses for the second quarter were EUR 11.7 million. The main elements include staff costs, live information feeds, and office costs. On this note, as part of our planned expansion, we are on course to open a larger office in Bucharest later this year. Our tax charge for the quarter was reduced by approximately EUR 0.2 million due to the U.K. tax treatment of share options, whereby the company receives corporation tax relief on the gains made by its U.K. employees. There was a similar level of cost included in the quarter's operating expenses for employers' social security costs on these gains.

Overall, this gives us a profit from operations of EUR 2 million compared to EUR 0.8 million last year, and a profit after tax of EUR 1.8 million, up from EUR 0.5 million last year. Now let us look at the cash flow on slide eight. Set out on this slide are the major components which impacted our cash position during the quarter. Our opening cash balance on April 1st was EUR 28.9 million. Working capital for the quarter was impacted by the timing of some annual volume-related discounts, which were settled during Q2. The impact of these discounts is a specific cash flow pattern that impacts Q2 only. This, along with an increase in debtors due to the impact of Euro 2016 in June, impacted cash flow for the quarter, a pattern we also saw last year. Capitalized development costs in the quarter were EUR 2.1 million.

The amortization charge on previously capitalized costs was EUR 1.4 million for the quarter. In terms of tangible fixed assets, we invested in our IT infrastructure and new offices, totaling EUR 1 million for the quarter. We also made the annual interest payment on our debt during Q2. As a result of these transactions, our closing cash balance was EUR 27.5 million. Now let me pass you back to Kristian, turning to slide nine.

Thanks, David. As I already mentioned, we are delighted to announce a new deal with R. Franco. R. Franco is a privately owned international gaming group. The group is one of the founding fathers of the Spanish retail segment, with over 40% of the Spanish AWP market. During the last couple of years, there has been a strong focus on server-based retail offering and online gaming. Kambi will look to replace R. Franco's existing sportsbook, currently operating on wanabet.es, and will drive expansion through its omnichannel offering across all of Spain and Latin America. Turning to slide 10. The Euro 2016 was obviously the highlight of the quarter. As previously mentioned, 11% of the quarterly turnover was generated from the tournament. It's also a very important marketing event for our operators.

Therefore, it's imperative to have the most competitive offering, new innovative features, and above all, a solidly performing technical platform. Considering our operators' result, I believe we succeeded in all the above areas. Our systems performed throughout the tournament with 100% uptime. The match odds were offered with a very competitive payback of 97.5%, and we had a variety of relevant offers, peaking at over 750 offers for the final. We also added new exciting instant bet offers. The most popular offer was the bet on the next occurrence. In other words, what will happen next? A throw-in, a corner, a free kick, and so on. I will soon talk more about some other Euro features. As with all sporting events, we can't control what happens on the pitch on any given day.

We can only manage the risk effectively, and the financial success of a large tournament is for us and our operators very much dependent on what happens on the pitch. For the Euro 2016, there was, as predicted, many ups and downs, a lot of late goals, most of them not very favorable for the bookmaker, but there were also moments such as the equalizer for Russia against England on added time that has a sizable impact on the quarter result. To summarize, Portugal as the champions and enough good outcomes in the individual matches helped make the Euro a financial success. Turning to slide 11. To further boost the player experience, Kambi made a number of new widgets available specifically for the Euro, such as player specials. The Euro widget offering enabled our operators to highlight a rich variety of content as well as simplify the bet placements.

It also gave our operators the opportunity to include their own Euro-specific widgets. This empowered operators to create a tailored and engaging user experience for their players. Turning to slide 12. Being able to keep a wide range of bet offers open during the most exciting moments in a game is complex but crucial for providing a good user experience. Here is an example from England-Iceland match when England is awarded a penalty. Looking at the betting client to the right side of the slide, when an offer appears in gray, it is not open for betting. Otherwise, it is. Kambi's operators were, as far as we know, the only operators in the industry with a full offering during the time of a penalty. This seemingly small feature, which is a part of a larger context, of course, is fundamental to our operators to acquire new players and retain existing ones.

Turning to slide 13. Finally, I would like to highlight a current initiative in the business. As part of a larger branding review, we have put renewed focus on how to communicate our brand and where we deliver value to our customers. We have identified five messages. We are the secure choice. We believe partnering with a secure supplier is essential for business continuity, and Kambi has set its service up to excel in this area. As a public company, regulatory compliance and integrity are top priority. We invest heavily in our technical systems and are using the highest quality data feeds. We are committed to a player experience. Sports betting is ingrained in our DNA, and there is a genuine drive throughout the company to provide the ultimate sports betting experience to the end user. We are data-driven. Data is at heart of our business.

Everything we do is based on interpreting data. For example, algorithms for pricing, risk management, and front-end development. We empower our operators. We understand the necessity of giving our operators great tools to provide a unique experience in line with their brand, and we are making great strides to support them. Lastly, we drive financial performance. Most importantly, we have a proven track record of supporting operators such as Unibet and 888 to outperform the market. Let me summarize our key point on slide 14. Again, we see a stellar performance from our operators. The Euro tournament was a success, both from an operational perspective as well as from a financial. Yesterday, we signed yet another exciting partner in R. Franco, and we are very well positioned for further growth. I would like to thank you for your interest in Kambi and now open up for questions.

Q&A

Thank you. Ladies and gentlemen, if you have not already, could you please press 0 and then one to ask a question, and press 0 and then two if you wish to cancel that. There will be a brief pause while questions are being registered. Our first question is from the line of Anders Hilbo of ABG. Please go ahead. Your line is open.

Hi, guys. I got a few questions for you today. First, could you comment a bit on the royalty levels in Q2 2016 versus Q2 2015? I mean, this was a bit of an issue in Q1, and could you elaborate a bit on how this royalty level is versus last year?

Yeah. Hi, it's David. I'd say there is, on some of our contracts, there is a bit more business which is at lower commissions than Q2 last year, basically due to the growth of the business. As I mentioned, on the top levels of the business, some contracts have lower commission rates, and due to the growth, we've seen more revenues at those lower commissions versus last year. Pretty much, I'd say fairly similar Q2 2016 to Q1 2016, but if you look versus Q2 last year, more business, due to the growth, more business at the lower commission rates.

How do you expect this to develop in Q3? Do you expect the commission level to come back up again, as some clients have their commission levels reset during Q2?

Yeah, we might see that pattern in one or two of our customer contracts. Equally, hopefully, we'll continue to grow the business of our existing operators, so others will also stay at those top rates of commission.

Okay. Thanks. Then a question on the R. Franco client. You mentioned 40% share of the AWP market. Could you elaborate a bit on what this is? What is the AWP market, and how does that translate into sports betting revenues?

Yeah. AWP stands for amusement with prizes. It is mainly like slot machines and bingo machines in a retail environment. R. Franco has a very wide network of different smaller operators who are utilizing this, and their aim is to also add sports betting to their retail environment now. I see great potential in that.

How confident could we be this will happen? Is this sort of an ambition, or is this sort of an actual plan to roll out sports betting?

It is an actual plan.

Okay, great. On Q3, Unibet reported this morning a really strong start to Q3 driven by very strong Euro Cup revenues, as a big portion of revenues from the Euro Cup seems to have ended up in Q3 rather than Q2, despite very few games in Q3. Is this in line with your trading as well, that Euro Cup was even stronger in Q3? Q3.

Yeah, I mean, you had some great results in the Q3. You had the draw, Germany, France, and you had the final, which also ended up in a draw. So, some of the late matches was very favorable. On top of that, you also get all the revenues from the tournament-long bets coming in Q3, with Portugal as the winner. That was also very favorable. So, I can confirm that it was a decent start for Q3.

Okay, sounds good. Just finally, we have some M&A activity among your clients. William Hill potentially being acquired by 888 and Rank, and also Suertia being acquired by France Pari. What kind of risk or opportunity do you see from these acquisitions or potential acquisitions?

At this point, it's very hard to say. I mean, it's very new to us as well, and we haven't really been in contact with any of our operators about this yet. With 888 Rank, William Hill deal, I mean, as we have said before, that could obviously be very positive and obviously very negative if that were to happen in the long term. In the short term, we obviously have a contract that still is running. The same goes with Suertia, I would say. I would say the risk of that is much, much lower. It's one of our smallest operator.

Okay, great. Thanks a lot then, and enjoy the rest of the summer.

Thank you.

We'll now go to the line of Rasmus Engberg at Handelsbanken. Please go ahead. Your line is open.

Yes, I had a question relating to what Anders asked as well. Your operator margin hit an all-time low in this quarter. Is that a structural trend, and to what extent is it a structural trend relating to increased paybacks?

Yeah, I mean, to some extent, it is, of course. I mean, as I have communicated for a long time, I believe that the long-term average should probably be half a percentage lower now than a year ago. It is hard for me to say exactly where it will land. What we see this quarter is mainly, yeah, a lot of bad results in April and May, especially in May. I do not think 6.2% is an average level for the future. I still believe it should be closer to 7%.

Hmm. Your new contract with ARJEL, when do you think that might be operational?

I think it will be operational sometime in Q4.

Okay. Finally, this weakness in the pound, are you seeing a benefit from that, or does that get sort of taken by your end customers, or how does that actually work for you? I know you have a lot of staff in the U.K.

Yeah, I mean, the weak pound, basically, it reduces our GBP revenues. Any revenues we make coming from customers and users based in the U.K., those are obviously worth a bit less to us in euros. On the flip side, our U.K. cost base is again lower. That's mainly office cost and staff cost.

Hmm. But I guess your proportion of cost is much higher than your proportion of revenues from the U.K.

Yeah, that's a fair assumption. Yeah.

Yeah. All right. I think that was it for me. Thank you.

Thank you.

Once again, if anyone has any further questions at this stage, please could you press 0 and then one on your phone keypad now. Okay. We go over to Jane Anscombe at Edison Investment Research. Please go ahead. Your line is now open.

Yes, morning. Can you just quickly talk a little bit about the competitive environment in the B2B market at the moment, given that we saw GVC winning Betfred a little earlier this quarter, last quarter?

Yeah, sure. Good morning, Jane. I mean, it's coming more and more competitors into the market. I still believe that we are quite alone in the segment. We are working on a very high premium level. So, I still feel we are in a very, very good position. But of course, GVC/bwin can be a future threat. But at the moment, I still believe we are in a very, very good position.

Is that partly because there are so many companies around the world that are still looking to introduce sports betting to their gaming ranges, like the Spanish company you just signed?

Yeah, partly. I think you see more and more. I mean, we started this venture back in 2010, and then we were pretty much alone on the different fairs, and the interest from the industry was not that high. Now, it is very, very different. You see a lot of more suppliers, but you also see a much, much bigger interest from the rest of the industry of outsourcing sports betting. So, I think we are in a very, very good position. One more thing to stress, I believe Kambi is in a position where we actually can deliver a service that is well in line with the absolute top tier of the B2C operators, and I do not see any other B2B supplier at this point being in that position.

Thanks for that.

Thank you.

One final time, if anyone's got any further questions, please press 0 and then one on your phone keypad. Gentlemen, as there are no further questions in the queue, can I please pass it back to you for any closing comments?

There is actually a question via email. Who do you see as your one to two second-biggest competitors?

Yeah. At the moment, the one we see the most at the moment is SBTech. Second one, yeah, potentially bwin, GVC in the future. But again, it's hard to say. The one we see the most is SBTech. All right. Thank you for your questions and for listening in. We look forward to update you on November 2 when we publish our third quarter report for 2016.