November 2, 2016

Kambi Group

Q3 2016

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MODULAR FINANCE

Prepared Remarks

Good morning and welcome to Kambi's third quarter result presentation. I am Kristian Nylén, Chief Executive, and joining me is our CFO, David Jeremiah. Please turn to slide two. I will go through the highlights of the quarter. David will give the final update, and then I will talk about the summer events, and as usual, the Kambi initiative. This time, I will talk about our progress in the retail space, and then speak about our new partnership with NLS. 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 512 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. So let's look at the quarterly highlight on slide four. Q3 shows continued strong growth in comparison to the same period last year, as our operators' turnover increased by 37% year-on-year, which led to a 25% growth in profit for Kambi. The final stages of Euro 2016 was a success for Kambi, both financially and operationally. In the Olympics, we had the broadest offering in the market, covering all sports. Olympics is an interesting event from a promotional perspective. From a short-term commercial perspective, it has less impact than you may think, with a turnover contribution to the quarter of just below 5%.

I will go more into detail about both these events later in the presentation. In October, we signed an important strategic partnership agreement with Novomatic Lottery Solutions, where we will cooperate in the delivery of a state-of-the-art omnichannel tailored for the government-regulated lottery sector. Spanish operator Luckia will not renew its contract with Kambi. The financial impact will be limited. As mentioned in the Q2 presentation, we signed with Spanish operator R. Franco, and we are excited about the new growth prospect. We are expecting R. Franco to start operating with the current brand, Wanabet, and with Kambi very soon. NagaWorld has extended its contract long-term, and at the same time, expanding its offering with more self-service terminals in its casino in Phnom Penh. 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. In summary, it's a quarter we have seen very strong growth in our operators' results. This, in turn, has driven our financial performance. Revenue for Q3 2016 was EUR 14.8 million, up 15% on the Q3 2015 figure. This was driven by a significant increase in the turnover of our operators, which I will look at in more detail later. This brings the revenue for the first nine months to EUR 41.7 million, up 25% from last year. Operating profit for the quarter was EUR 3.1 million, at a margin of 21%. This is up from EUR 2.5 million last year and represents an increase of 25%. For the year to September, the operating profit is EUR 7 million, at a margin of 17%, compared to EUR 4.1 million in 2015. Our cash flow, excluding movements in working capital for the quarter, was EUR 1.6 million.

For the first nine months, the cash flow was EUR 3.1 million. The net cash position at the end of September was EUR 22 million. Let's now look at the 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. The margin represents the combined profit margin made by the operators. in Q3, we have seen a healthy level of turnover placed with the operators we support, up 37% from Q3 last year. Q3 is typically a quiet quarter in the sports calendar, and in both 2014 and 2016, we see a marked pattern in operator turnover in the quarter following a major football tournament.

We are very pleased with the growth in our operators' turnover. This quarter, the overall operator margin was around 7.2%. This margin was supported in particular by results from the final matches of Euro 2016. Let's turn to the full income statement on slide seven. The movements we saw 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. This aligns the interests of Kambi and its operators to grow their business. This year, the significant growth we are seeing in some of our larger contracts has seen these operators achieve lower effective commission rates.

On this note, as we support the growth of our operators into newly regulated markets, such as Romania, and other new tax regimes, such as VAT in Belgium, we share the additional tax burden with the operators. The impact of this on our revenues compared to Q3 last year was EUR 0.5 million. More than 10% of our income comprises fixed fees and charges linked to the number of live events being provided. These revenues do not scale with the growth in operator turnover, but rather provide a fixed income stream. The net effect of all these was to increase our income by 15% compared to Q3 last year. Operating expenses for the third quarter were EUR 11.7 million. The main elements include staff costs, live information fees, and office costs.

On this note, as part of our planned expansion, we are delighted to have moved to new offices in London and Bucharest in the past few months. Overall, this gives us a profit from operations of EUR 3.1 million compared to EUR 2.5 million last year, and a profit after tax of EUR 2.7 million, up from EUR 2.1 million last year. Now let's 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 July 1st was EUR 27.5 million. Working capital for the quarter was positively impacted by a decrease in debtors, which were high at the end of June due to the impact of Euro 2016. Capitalized development costs in the quarter were EUR 1.5 million. The amortization charge on previously capitalized costs was EUR 1.4 million.

We had a high cash outlay in terms of tangible fixed assets relating to the fit-out of both our London and Bucharest offices. As a result of these transactions, our closing cash balance was EUR 29.3 million. Now let me pass you back to Kristian, turning to slide nine.

Thanks, David. It has been a summer with some significant sporting events. The Euro 2016 finished off in Q3, as the last six matches of the tournament were played in July. The match with Wales upset in Belgium. A second significant result was the draw after 90 minutes between Italy and Germany. The tournament was finally capped with a surprising champion when Portugal won against France after extra time, even though Ronaldo, Portugal's big star, got injured in the early stages. The contribution from the last six matches was 3.5% of the Q3 operator turnover, with very favorable margins. The tournament as a whole was a success from all perspectives. We experienced perfect technical performance throughout the tournament and created a leading offering for our operators. Turning to slide 10, the Olympics was another success, creating a large amount of promotional opportunities for our operators.

During 19 days, Kambi offered markets on all 41 sports and covered all gold medal events in play. We priced a total of 306 disciplines and 2,142 events. However, to put it in perspective, these events amounted to roughly 20% higher operator turnover than the last six matches of the Euro 2016. On slide 11, we will cover the Kambi initiative in the retail segment. Since the inception of Kambi, it has been our intention to deliver a leading sportsbook solution also for the retail channel. The past few years, we have been developing both the technology and the commercial aspect to set us up for success in this channel. Strategically, the retail channel opens up great opportunities for Kambi in a market that represents more than three-quarters of the total sports betting revenues globally.

It's a market that is not primarily being migrated over to online, but is rather being digitalized, and this fits Kambi's capabilities very well. Our ambition has always been to bring the online pace to a retail space. For Kambi, this means in a scalable way to channel the depth and the quality of our service to the shops, casinos, and other retail environments. Some examples of this are session handling, enabling players to use the live product just as they would have online. The cash out feature we brought with us to retail, and the ability for omnichannel operators to present the one and the same UX in all channels to their players. We now see the quality of our retail service in our partnerships. Televisa is extending the service to more casinos in Mexico, and a contract extension has been agreed with NagaWorld.

The recent partnership deals with R. Franco and NLS, both of which are leaders in their respective retail fields, offers Kambi a technical as well as a commercial platform to really make a mark in this space. Turning to slide 12. As I mentioned earlier, we are delighted to announce a new partnership with Novomatic Lottery Solutions, also known as NLS. NLS is a wholly owned subsidiary of the Novomatic Group, a leading gaming technology company with revenues of around $4 billion. This strategic partnership will see Kambi and NLS bring to the market a full-service gaming solution to government-regulated lotteries. The service will be co-branded and marketed under NLS Sports Betting, powered by Kambi. The rationale behind the partnership is to work together on delivering a unique and modern sports betting experience across all channels.

The target group for this cooperation is the government-regulated lotteries, which is a key strategic segment for Kambi. We believe our potential of signing new customers in this market segment has strengthened, and we are looking forward to the joint collaboration with NLS. This service will be showcased for the first time at the World Lottery Summit in Singapore, starting on Sunday. Let me summarize our key points on slide 13. We deliver an excellent Q3 with strong performance for our operators. We see a solid profit growth for Kambi, and with our partnership with NLS, Kambi further strengthened its potential for customer acquisition in the lottery sector. I would like to thank you for your interest in Kambi, and now open up to questions.

Q&A

Thank you. Ladies and gentlemen, if you have a question for the speakers, please press 01 on your telephone keypad now. Please hold until we have the first question. As another reminder, if you do wish to ask a question, please press 01 on your telephone keypad. Our first question comes from the line of Anders Silfverberg from ABG. Please go ahead. Your line is now open.

Hi, Anders Silfverberg here. A few questions from me today. First, you talk a bit in the report about South America and a lot of markets re-regulating there. Could you give some flavor on how will that work out for you? Will you need to wait until the regulation is approved and in place, or do you think that you could start to sign up companies there already? What is your plan for this region?

Hi, Anders. I mean, the activity of operators in South America has increased quite a lot the last half year. I think, as in Europe, they are looking before, and regulation is actually in place. And, most of them would like to be up and running when regulation is open.

Okay. Thanks. On NLS, I mean, when you say that they are a leader in their field, I mean, what are you referring to then? Because if you look on their number of clients, you can see that they have relatively few clients, especially in the sports betting area. So could you give some more light on how strong their position are and in which fields they are so-called leaders?

I would say the Novomatic Group is a clear leader in the industry. I mean, they are a massive company, so they have EUR 4 billion in revenues. NLS is, like Kambi, quite a new entity, and they have been winning some really nice contracts lately in the lottery industry. But they have just been around in the lottery industry for a couple of years. But I would say, where I believe they are clear leaders is on the technical side. I think the technology NLS can provide is on a very different level from the old incumbents.

Okay. Thanks. When it comes to customers, are there any restrictions on which regions you are focusing on or targeting? Is it mainly Europe, or is it other regions like North America or South America or Asia as well?

With NLS, I think the only restriction is that it should be, yeah, government-regulated lotteries.

Do you see any potential to expand sort of this deal to the rest of the Novomatic Group and their other subsidiaries as well? I mean, that could open up much bigger opportunities for you, given their size of the group.

I hope there is an opportunity, and yeah, we obviously would be very happy to do something with the Novomatic Group as well.

Just finally, the Q4 so far, I mean, could you give some flavor on what the start has been to Q4 so far?

No, as usual, we try to refrain from giving any indications, but I guess Unibet usually doing it, and you can probably get a decent indication from that for us as well.

Okay, great. Thanks.

Thanks.

Thank you. Thank you. Our next question comes from the line of Rasmus Engberg from Handelsbanken. Please go ahead. Your line is now open.

Yes, hi. Good morning. I had a question on, did you mention anything on the size of the fixed fees in relation to the variable fees? Could you outline that again? What you said?

Yeah, sure. Hi. We said more than 10% of our income is from the fixed fees. Obviously, those do not really scale, you know, if you take one year versus the next, so those are going to stay relatively stable. So yeah, more than 10%.

Are they in, I think, typically in the operator's currencies, or are they nominated some other revenue?

I mean, on most, I would say those are in euros.

Yeah.

For the normal, the main ones.

Yeah. Do you have anything to update us on with regard to the Stan James business that Unibet bought? Is that something that you will see on your platform next year, you think, or?

I refer to Unibet on that part. I think it is up to them to discuss the Stan James business.

Mm-hmm. Now, as you said, we have had two quite large sporting events during this year. Where are you focusing your investments going forward from here? Is it more a broader offering, or is it more on the platform, or where is the focus right now in terms of investing?

I think when it comes to investment, there are two areas where we are spending most, and one is, yeah, IT development across all areas, from automation, front end, and so on, retail. I think that is the biggest area of investment. The other is, of course, operationally, to be able to create more live events, we have to expand the number of traders as well.

Okay, thank you.

Thank you.

Thank you. Our next question comes from the line of Sharish Aziz from Danske Bank. Please go ahead. Your line is now open.

Thank you. This is Sharish calling from Danske Bank. I have two questions. When you say limited impact from termination of Luckia, what exactly is Can you quantify limited impact? Then, of course, on FX tailwind on EBIT, how much was that in absolute numbers? Thank you.

I can give you this much on Luckia, that it is lower single digits on the revenue line we are talking about. I expect that impact to be offset by new customer signings.

Thank you.

Yeah, thanks. Should I take that one? Yeah, I mean, if you look at the Q3 results, we are kind of basing on the Q2 FX rate. Yeah, basically, it is reduced both our costs and our revenue. Our revenue is reduced by EUR 0.2 million. Our costs are reduced by EUR 0.3 million for our GBP costs, our U.K. staff, and office costs. So net effect around EUR 0.1 million on EBIT level.

Sorry, could you please repeat that, David? The 0.2-

0.1 million net positive effect on EBIT.

Perfect. Thank you. Just a follow-up on the termination of the Luckia contract. Was it a mutual decision, or was it Luckia's? Why are they actually terminating the contract?

We couldn't agree on new terms. That is the simple answer on that question.

Okay, perfect. Thank you.

Thank you.

Thank you. As another reminder, if you do wish to ask a question, please press 01 on your telephone keypad now. Okay, as there appear to be no further questions, I return the conference to you.

Okay, thank you for your questions and for listening in. We are looking forward to updating you on February 14 when we publish our fourth quarter results for 2016.