April 26, 2017

Kambi Group

Q1 2017

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Prepared Remarks

Good morning, and 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. I will go through the highlights of the quarter. David will give a financial update, and I will talk about our new customer signing, Greentube, the proposed Swedish regulation, followed by Kambi initiative. This time, I will talk about front-end improvements in retail. After the conclusion of 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 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 570 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 13 operators, most of whom are outperforming the market. Let's look at the quarterly highlights on slide four. As communicated on April 5, the trading margin for the first quarter came in well below expectations. After a strong January, February and March were torrid. In particular, the round of 16 in Champions League and February 26, when the 11 highest staked favorites all won, impacted the result very negatively. On the positive side, we see a solid growth in our operators' turnover, up 27% compared with a very strong Q1 2016.

We are very pleased with the success of our operators, and due to the strong growth in turnover, Kambi's revenues grew by 7% despite a very poor trading margin. We also mentioned in the Q4 report, we signed a contract with Greentube, Novomatic Interactive, in January. I will elaborate more on Greentube later in the presentation. Kambi was during the quarter awarded the ISO 27001 certification. This provides a framework for Kambi to manage regulatory requirements and protect information assets so they remain safe and secure. The certification is also a prerequisite for many public procurement processes. I will now hand over to David, who will talk you through the financial highlights on slide five.

Thank you, Kristian. Good morning, everyone. Revenue for Q1 2017 was EUR 14.2 million, up from EUR 13.3 million in Q1 2016. This was driven by a strong increase in the turnover of our operators, offset by a weak trading margin, and I will look at this in more detail later. Operating profit for the quarter was EUR 1.4 million, at a margin of 10%. This compares to EUR 2 million last year. The operating profit was directly affected by the trading margin for the quarter, along with our planned increase in operating expenditure, as we continue to invest in building our premium sportsbook. Our cash flow, excluding movements in working capital for the quarter, was EUR 0.8 million. The net cash position at the end of March was EUR 23.8 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. In Q1, we have seen a very strong level of turnover, up 27% from Q1 last year. The margin represents the combined trading margin made by the operators. Historically, the trading margin presented has been after the deduction of sportsbook-specific marketing costs, as these were of a low level. However, there has been a growth in the relative size of certain operators, which has increased the impact of these marketing incentives. As such, going forward, Kambi will present its operators' trading margin before the deduction of such marketing costs. This quarter, the overall operator trading margin before marketing deductibles was 6.2%.

This margin was impacted by match results in the major football leagues in the second half of the quarter. It is in the nature of the business for the trading margin to fluctuate between quarters, depending on the results of sporting events. This margin impact was accentuated by the effect of accumulators, as we can see on slide seven. This slide shows how the pre-match margins compare year on year for both single and accumulator bets. Accumulator bets are those with selections on more than one event, where each selection needs to win for the bet to be successful. Whilst margins on single bets saw a small increase year on year, here we see how the margin on accumulators almost halved. This is typical for a period with a high proportion of favorites winning in clusters, which we saw in this quarter.

In this report, we are setting out a new graph to show the transition from operator turnover growth to our revenue growth, shown on slide eight. After adjusting for FX, operator turnover grew by 27% compared to Q1 2016. The Q1 2017 operator margin before deductible costs was 6.2% compared to 6.9% in Q1 last year. The impact of this lower margin was that the operator gross gaming revenue increased by 14% year on year. As part of our revenue model, we share certain costs with our operators. These can include marketing costs, such as free bets and betting duties. 54% of our operators' GGR derives from re-regulated markets incurring betting duties. Increases in these areas, along with the addition of certain other taxes, such as VAT in Belgium, impacted the growth of operator net gaming revenue, which was 11% in Q1 2017.

Kambi's commission is based on a percentage of the operator's net gaming revenue. To promote and support growth, some of the customer contracts include tiers with lower commission rates on the higher levels of their revenues. The tier commission levels run on a yearly basis, depending on the contractual year. The growth in the business of many of the operators resulted in a lower effective commission rate in Q1 2017 than in Q1 2016. Also, around 10% of our revenues are fixed and do not scale with operator turnover growth. Overall, these elements resulted in Kambi's revenues increasing by 7% year on year. Let us turn to the full income statement on slide nine. Operating expenses for the quarter were EUR 12.9 million compared to EUR 11.3 million last year. The largest part is staff costs, which represented 42% of total operating expenses.

We are continuing to invest in the people and infrastructure required to create the best sportsbook on the market. Overall, this gives us a profit from operations of EUR 1.4 million compared to EUR 2 million last year, and a profit after tax of EUR 1.1 million compared to EUR 1.8 million last year. Now let me pass you back to Kristian. Turning to slide 10.

Thanks, David. As I mentioned earlier, Kambi signed an agreement with Greentube, a subsidiary of Novomatic, for its online B2C operations across regulated European markets. Kambi will provide its fully managed service to Greentube's online brands. The launch will be phased into regulated markets, and we expect Greentube to launch into their first markets during the summer. This is a promising partnership, and we believe it has great potential to be an important pan-European sportsbook player alongside its already successful casino brands. Turning to slide 11. Sweden, which is one of the most important jurisdictions for Kambi, is preparing for regulating the online gambling market in 2019. With a suggested tax rate of 18%, it would impact both our operators' revenues as well as Kambi's. However, as we have communicated before, we look at this as a positive development.

At Kambi, we believe this will lead to increased opportunities in signing new operators, such as the state-owned operators, as well as other entrants into the market. Turning to page 12, I would like to update you on Kambi's retail offering. During the quarter, we closed one of the bigger gaps in our retail service when launching the new interface for the self-service betting terminals. The product is now powered by the same depth, speed, and quality as the online services. We have optimized the interaction and the content presentation for the retail space. With the digitalization that the retail market is going through, our solution now becomes a leading proposition. The new user interface has been built on the same empowerment platform that all Kambi operators have access to.

It is a compelling showcase for how we, in a unique way, can build scalable solutions that easily are differentiated to deliver the most relevant UX at any time and place. Let me summarize on slide 13. Q1 was not a good quarter in terms of revenues. Due to adverse trading margins, these were impacted by player-friendly outcomes. We did sign a new renowned operator in Greentube, and we saw a strong turnover growth, up 27%, generated by our operators. The continued strong operator turnover growth and momentum in the market highlights the strength of Kambi and the value we provide to our operators. I would like to thank you for your interest in Kambi, and now open up for questions.

Q&A

Ladies and gentlemen, if you do have a question for the speaker, please press 01 on your telephone keypad. There will now be a brief pause while questions are being registered. Once again, ladies and gentlemen, if you do have a question for the speaker, please press 01 on your telephone keypad. Our first question comes from the line of Rasmus Engberg from Handelsbanken. Please go ahead with your question. Your line is now open.

Yes, good morning. I just wanted to ask you how you felt about the betting margin in the second quarter. Is it on track to recover towards the historical levels, or how do you see that?

Hi, Rasmus. We have a policy not to comment on the betting margin for future quarters, but I assume you have listened in to Unibet, and as it's one of our largest operators, I think you can draw the same conclusions as with them. But the beginning of April hasn't started very well.

Mm. But you also had a rather weak margin during last year. That was mainly in the European Cup, wasn't it?

No, I would say European Cup was very good margin.

In Q2?

In Q2. Sorry, yeah, it was probably most in Q3.

Yeah.

Sorry.

Yeah. Okay. Do you feel comfortable that you're back to growing your earnings now?

Yeah, I mean, if I look at this report with normal margins, trading margins, I think we would have shown very, very good results. I absolutely believe that we have a very good foundation for growing in the future.

Okay. Thank you.

Thank you.

Once again, ladies and gentlemen, if you do have a question for the speakers, please press 01 on your telephone keypad. We appear to have no question at this time. I hand the conference back to you, sir.

All right. Thank you for your questions and for listening in. We will look forward to updating you on July 26 when we publish our second quarter results for 2017.