February 14, 2018

Kambi Group

Q4 2017

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MODULAR FINANCE

Prepared Remarks

Welcome to Kambi's fourth quarter result 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 more depth, and as usual, the Kambi initiative, which this quarter focuses on the U.S. market. 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 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 600-plus 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 capabilities. We currently offer our service to 15 operators spread across six continents, making us a truly global sportsbook provider. Let's look at the quarterly highlights on slide four. Q4 produced record quarterly revenues of EUR 19 million, a 33% year-on-year increase. This growth was largely thanks to an extended run of favorable sports results, which has delivered a high operator trading margin of 9.7%. This margin is considerably higher than our previously communicated forecast range of 6.5%-7%. This took our trading margin for the year to 7.4%, a figure more in line with our earlier forecast. We signed another new customer in Sun International, making it eight consecutive quarters in which Kambi has won new business.

Sun International is one of the largest land-based casino operators in the Southern Hemisphere and also runs an online sportsbook in its home market of South Africa. We are delighted to add them to our network. The quarter also saw us agree extended deals with three key customers, as LeoVegas, Paf, and Napoleon Games all committed to Kambi for the long term. When including the renewal of 888sport in July, Kambi has recently secured four key sources of revenues for years to come. Renewals also illustrate the strength of the service we provide. Finally, last week, industry publication Gambling Insider held its Global Gaming Awards ceremony in London, and I'm delighted to report Kambi won Online Sports Betting Supplier of the Year. While we measure our success on that of our operators, it's always pleasing to be recognized for our work. I now hand over to David.

Turn to slide five.

Thank you, Kristian. Good morning, everyone. Q4 saw Kambi's highest quarterly revenue to date at EUR 19 million. This was driven by a very strong operator trading margin of 9.7%. Operating costs were EUR 14 million, giving an operating profit for the quarter of EUR 5 million. For the full year, revenue was EUR 62.1 million, with operating profit of EUR 7.7 million. Our cash flow for the quarter, excluding working capital movements, was EUR 3.8 million, and our net cash position at the end of December was EUR 26.9 million. Let's now look at the income in some more detail. Turn 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 Q4, we've seen turnover placed with our operators up 7% from Q4 last year. The level of operator turnover was suppressed by the very strong operator trading margin in the quarter due to the correlation that we typically see between these two metrics. The margin represents the combined trading margin made by the operators. In Q4, this margin was 9.7%. It's in the nature of the business for the trading margin to fluctuate between quarters, depending on the results of sporting events. A feature of this quarter was the number of low-scoring draws in the major football leagues, which had a positive impact on the operator trading margin. The margin for the full year was 7.4%. We believe that the expected long-term average for the operator trading margin is 6.5%-7%.

However, the growth of the operator network we are supporting, as well as certain other structural factors, may cause us to assess whether this range needs to be slightly higher. We'll continue to monitor this closely, as well as any knock-on effect this might have on the level of operator turnover. We can see the conversion from operator turnover growth to our revenue growth on slide seven. After FX, operator turnover grew by 7% compared to Q4 2016. The operator's trading margin multiplied by the turnover generates the operator's gross gaming revenue. The trading margin of 9.7% was well ahead of Q4 last year, leading to an overall operator GGR increase of 55% 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.

Compared to Q4 last year, we saw a proportionally lower deduction of betting duties. Additionally, the impact of Belgian VAT, which was introduced in August 2016, is no longer seen in this year-on-year analysis. Kambi's commission is based on a percentage of the operator's NGR. To promote growth, some of the customer contracts include tiers with lower commission rates on the higher levels of their sports betting revenues. This, along with the fixed part 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 this year. The net effect of all these factors is that revenue for Q4 2017 is up by 33% on Q4 last year to EUR 19 million. Let's turn to the full income statement on slide eight.

Operating expenses for the fourth quarter were EUR 14 million, up by 2% from Q3. For the full year, operating expenses are EUR 54.4 million, up 15% on 2016. Operating expenses are forecast to increase in Q1 2018 by 3% to 5% compared to Q4. Overall, in Q4, profit from operations is EUR 5 million compared to EUR 1.8 million last year, and profit after tax is EUR 3.9 million compared to EUR 1.2 million last year. Looking at 2017 as a whole, it is a year where we have continued to invest in building a market-leading Kambi Sportsbook to maximize our long-term revenue potential. Our revenue growth was impacted by the terms of the 888 renewal. However, the foundation for a highly scalable business model remains in place, and we saw evidence of this in Q4, where the increased revenues drove a sharp increase in operating profit. Now let us 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 October was EUR 32.2 million. Working capital decreased in the quarter by EUR 2 million, reflecting an increase in debtors due to higher invoice demands compared to the previous quarter end. Capitalized development costs in the quarter were EUR 2.3 million, while the amortization charge on previously capitalized costs was EUR 1.8 million. The net cash inflow for the quarter was EUR 1.9 million, and our closing cash balance, EUR 34.3 million. Now let me pass you back to Kristian, turning to slide 10.

Thanks, David. As I touched on earlier, in the Q4, we signed another customer in Sun International. Listed on the Johannesburg Stock Exchange, Sun International is one of the largest casino resort operators in the Southern Hemisphere, with properties in South America and its home market in South Africa, which includes the flagship luxury resort, Sun City. Sun International also operates an online sportsbook in South Africa called SunBet. SunBet is currently run on proprietary technology with an internal trading team supplemented with third-party feeds. The deal will see Sun International swap its current online setup for Kambi's end-to-end Kambi Sportsbook. The ambition is to launch SunBet on the Kambi platform within the next few months. The precise timing is largely dependent on the completion of the local compliance procedure. Following the online launch, there are also longer-term plans to introduce a Kambi retail product to the Sun International retail premises.

The signing of Sun International means Kambi has added at least one new customer in each of the last eight quarters. This run reflects the growing trend for sports betting outsourcing, and as well as the relevance and quality of the Kambi model. Now on to slide 11. Just as important as adding new operators is the extension of deals with our current customers. In our previous report, we detailed extended deals agreed with LeoVegas and Paf at the beginning of the Q4. In addition, Q4 also saw us agree a multi-year extension to our contract with Napoleon Games. In partnership with Kambi, Napoleon Games has built a leading position in its local Belgian market. We are very happy for them to have committed to Kambi for long term.

When taking into account the recent extension with 888sport, Kambi has signed extended deals with our four largest operators outside of Kindred, securing important sources of revenues for years to come. Turn to slide 12. In Q3 2017, Kambi signed one of the largest private gaming operators in Bulgaria, National Lottery AD. I am delighted to report that the Kambi Sportsbook went live through National Lottery AD's 7777 brand in the end of January. The launch involved the customer migration from National Lottery's previous sports betting provider, meaning Kambi has been generating revenues from day one of the operation. The brand already holds the leading position in the online lottery market, with more than 2 million registered customers, and has the ambition to build a similar prominent position in sports betting. Early signs have been promising.

For instance, so far in February, the volume of bets coming through ranks inside the top five within the Kambi network of operators, albeit the stake sizes are lower than elsewhere in the network. On to slide 13. Now I would like to talk you through one of Kambi's key initiatives. As some of you may be aware, there are growing optimism and excitement around the possibility of legalized sports betting in the U.S. At present, there is a federal ban in place on sports betting in the U.S. However, in December, the Supreme Court heard oral arguments in the state of New Jersey's long-running legal battle to strike down the law. The Supreme Court is expected to hand down its judgment latest by June. However, the decision could come as early as next month.

Should a majority of the nine judges rule the prohibition to be unconstitutional, Kambi expects a large number of states to adopt regulatory frameworks for sports betting. Four states have already passed bills for sports betting, which will come into effect if and when the prohibition is lifted. That is New Jersey, Connecticut, Pennsylvania, and Mississippi. In addition, at last count, there were another 16 states where bills were in progress. Kambi has always kept one eye on the U.S. in the expectation the regulatory situation would change and the market would open up. Should this happen, our addressable market could double overnight. Following recent developments, we decided to make preparations for a positive Supreme Court decision. This includes understanding and scoping out potential state-by-state regulatory requirements. A legal market would likely resemble the regulatory situation we see in Europe, where regulatory frameworks differ from country to country.

As our experience in Europe has shown, the Kambi model and technology is scalable and adaptable to a variety of compliance needs. We also performed a full product assessment to identify any potential gaps, and I am glad to say that, bar some small modifications, the Kambi product would be well-suited to a U.S. betting audience. When also considering our thorough approach to sports integrity and the strong company probity, Kambi is very well-placed to enter the U.S. as and when the local law allow. Moving on to slide 14. Last week, we saw the annual ICE Totally Gaming Show in London, the largest trade show for the gaming industry. As every year, Kambi took floor space at ICE to show guests and potential customers the power of Kambi Sportsbook.

This year, we again saw an increased interest for outsourced sports betting solutions, with the Kambi stand incredibly busy across all three days of the event. Notably, we saw great interest from U.S. attendees, with operators keen to prepare themselves for the legal U.S. market. The event also gave Kambi the opportunity to strengthen the relationship with our current customers. Specifically, Kambi hosted a World Cup workshop to ensure our customers are fully equipped and ready to make the most of Kambi Sportsbook before, during, and after the tournament. Now on to slide 15. Ahead of ICE, I was delighted to collect the award for the Online Sports Betting Supplier of the Year at the Global Gaming Awards. Organized by leading industry publication Gambling Insider, the awards are overseen by KPMG, giving the award extra significance.

The prize is recognition for the strides we have made over the last 12 months, our extended global reach, and the hard work and effort we see from our dedicated staff each and every day. On to slide 16. To recap, Q4 was another successful quarter for Kambi. A 33% increase in revenues delivered a record quarterly performance. We signed another major brand in Sun International, increasing our global reach, and we extended deals with three key customers. We have made significant progress to be ready for a potential lucrative U.S. market, pending the upcoming Supreme Court decision. More generally, Kambi has never been in better shape, and I am excited for the year ahead. Thank you. Q&A.

Q&A

Thank you. Ladies and gentlemen, if you do have a question for the speakers, please press 01 on your telephone keypad now. The first question comes from the line of Christian Hellman from Nordea Markets. Please go ahead. Your line is open.

Hi. Thanks. A few questions. Just the potential in the U.S. I am just trying to understand, if you could give an example of, if the market would open up, what you could do in that market. Because as I understand it, the law that is potentially being overturned, that just involves sports betting in a retail environment, physical environment. It is not online, correct?

Hi, Christian. I would say that that is totally up to each and every state, whether online will be allowed. In New Jersey, for instance, where we have started with online casino and poker already, I am sure that sports betting will be allowed online directly. And I feel very confident that you will see a trend of sports betting leading the online movement in gaming in the U.S. if it was overturned.

Okay. Okay. I thought there was another law, the Wire Act, that sort of prohibited online sports betting as well, but I might be mistaken.

Yeah, I think so. Yes. I mean, you cannot do it cross-states. So, I mean, you have to have a geolocation. But both in Nevada already, you have online or mobile betting. And yeah, in New Jersey's case, I am sure that they will allow mobile betting as well.

Okay, fine. Fine. The Wire Act is just between states.

Yeah.

All right. Thank you. Another question on your net cash position, which is EUR 27 million at the end of Q4. What's your sort of, you are not paying dividends. What do you need the cash for? U.S. expansion or?

Yeah. First of all, as you have seen over the past four quarters, our result can be quite volatile depending on the trading margins. I think for that reason, we need to have a decent cash on hand. I think especially when we sell to monopolies or lotteries, I think that's one of the absolute first questions they are asking about is how our balance sheet is looking. So, that is one of the big reasons we need to have a very good balance sheet. Whether this amount is enough or not, that is not for me and David to answer, and that is a board decision.

Fair enough. Then a question on sort of year-over-year comparisons now in Q1. I am thinking about the changed terms with 888, for example. What will be the impact on that in Q1, just to sort of get the numbers as close as possible to what it might be?

Hi, Christian. David. When we disclosed in Q2 last year, we said that EUR 0.4 million related to Q1 in 2017. I guess it is going to be a not too dissimilar number in Q1 2018. Probably around EUR 0.4 million.

0.4?

Yeah, 0.4, 0.5.

0.4, 0.5 million EUR. All right. Okay. That will be the end of that, then from Q1 and onwards, there will be no year-over-year.

Yeah, that is right.

Sorry, what was it now in Q4?

It was just under EUR 1 million.

Just under EUR 1 million?

Yeah.

That was sort of the lion's share of that other bar in the bridge.

Yeah, it's a big part of it. The rest is really kind of due to the strong results. We have obviously some tiers in our contract, so kind of more of the business where operated on the top tiers, i.e., the lower commission rates. That's the other part of that column. Yeah.

Fine. Then a final question just on the pipeline of potential new customers. You mentioned previously that it's been, I think you said at the Q3 presentation, that it was the strongest pipeline ever. Care to comment on if that remains the same or what your feeling is ahead of the World Cup and everything that's going on?

Yeah, I think we're still extremely happy with the pipeline. Yeah, it keeps improving and, at ICE last week, we had a lot of interest in the product, so absolutely a strong pipeline.

Right. If an operator wants to get up and ready and have a sportsbook ready for the World Cup, which starts in June, when do they have to sign a contract with you guys to make that happen? If you understand what I'm asking.

Yeah, it's kind of starting to get urgent, I would say. But if you look at last year, I think we signed two operators in January and one in April, and all three of them was up before the Euros. Or not last year, two years ago.

Right. Okay, so March, April.

Yeah.

Okay. Thanks. That was it for me, I think.

Thank you.

Next question comes from the line of Viktor Högberg from Pareto. Please go ahead. Your line is open. Viktor Högberg from Pareto, please go ahead. Your line is open.

Yeah, sorry, I was muted. Hi, guys. Could you talk about the potential raising of the range of the betting margin from 6.5% to 7%? You mentioned some structural changes in your operator base. Could you explain why, how much, when? Just go through that.

Hi, Viktor. Yeah, I would say that we have started looking into it. I think we have seen some indications of that we should probably raise that range slightly. But it's too early for us to give you a guidance on it at the moment. But yeah, we see something about some of the newer operators bringing in slightly higher margins than the average. We have seen some new betting behaviors on the existing customer base because of new features in the front end and so on. But it's too early for us to give a guidance on it just yet.

Okay. When do you think you'll know? Like next quarter or within the year or?

I think, yeah, we will probably give you a guidance next quarter.

Okay, great. Okay, next one here. Surely, the operator turnover index was negatively affected by the record margin in Q4.

Yeah.

But even 2015 ended at 203, now you are at 259. Given a normalized margin, what would the index have been in Q4, given that this is the most important online metric?

Yeah. Actually, we have tried to get to understand the elasticity, but we cannot really give you a figure of it. But it has a large impact. And yeah, just to take a very simple example, I mean, if you would go to a roulette table and decide that you would spend 100 kronas, if you put all of it in the first run and lose it, you have a turnover of 100. If you win it and double it on the next, I mean, for the exact same amount of spending, you have a turnover of 300 instead. So, I mean, obviously, it is a big impact when we go from, yeah, 6%

Okay

percentages to almost, yeah, 9.5%. But I cannot give you a figure on it, unfortunately.

Would it be fair to assume it would have been above 300, maybe, the index?

I would say that it's not impossible at all.

Okay. Just to know what a normalized level to work from here. So, the taxes and marketing deductibles, it was a positive effect in Q4. Was that due to Belgium or?

Yeah, two things. One, I mean, one, the Belgium impact that we've seen in previous quarters just isn't there anymore, so that's no longer a deduction. And also, a slight change in our customer base. So, whereas previously we had more business in Spain, for example, with some operators there, which were there in prior years, they're no longer there. A couple of operators that have gone away from the Kambi network and pretty much been replaced by growth in other operators, such as LeoVegas, Mr. Green, Kindred, amongst others, some of which are not in regulated markets, so no betting duty deduction. So, just a very small shift, but it gives a very small positive impact on this like-for-like.

Can you say anything about any potential relative moves in royalty rates, not just the tiered commission rates, but the base, or so to say?

I am not sure I understand the question.

No, your client base, the royalty rates that you are charging on the contracts that you are signing, have you seen any changes of late?

Yeah, I mean, yes, we have renewed the past LeoVegas and the Napoleon Games contracts, so there has been some adjustments to their rates. And obviously, any new operator, they have their own separate contracts, so there are some slight changes, but nothing that is significantly changing the picture for us.

Okay. These three, they are not as large as 888, but together, will the combined effect of these renewals have a similar effect or significantly lower, or will it be noticeable in the P&L?

It will have some effect, but not at all in the same range as the 888.

Okay, great. One last question. The OpEx growth you guide for 3%-5% plus here in Q1.

Is this to be expected every quarter, or?

I'd say, I mean, it's probably slightly higher, and there's a couple of factors that make Q1 different to the other quarters. Firstly, you have the ICE conference that Christian mentioned in the presentation. Quite a significant spend, as you saw in the picture. It's quite an undertaking, so that's almost a one-off cost in Q1 every year. Then there is, of course, our kind of natural salary inflation, where you see that's really on when you move from Q4 to Q1, that that's a one-off impact you have there. So really going forward, I think any growth in OpEx in future quarters is more going to be driven by any recruitment, particularly on our IT and product development side, as we continue investing in the product. So the three to five is probably, yeah, slightly on the high side because of those one-off factors I mentioned.

Okay, great. Thank you.

Next question comes from the line of Rasmus Engberg from Handelsbanken. Please go ahead. Your line is open.

Yes, hi. I wanted to ask you, it seems to me that your dependence on Kindred increased, especially in the second half of the year. Is that a correct understanding of what's sort of driving the discount or other bar, except for the 888 extension?

I mean, they are kind of two separate questions, I guess. I mean, arguably, the dependence on Kindred increased possibly as a percentage due to the 888 kind of renewal, so that is kind of a natural effect of that until we bring in more external revenues. In terms of the other, as I mentioned, it is really the very high margins in the quarter have obviously driven revenue to higher levels, and that means more of the business of our operators is at the lower commission rates in Q4 2016. So in that other bar, that is the other driver apart from the 888 factor.

Yeah, I was just more thinking that if I look at the operator index, the turnover and the margin, I have your operators growing their gross winnings by about 30%. That seems to be quite a bit lower than what Kindred did in 2017.

Yeah, but I mean, it is not like for like. In Kindred, you have some parts of the sports betting that we are not operating. For instance, they are doing quite well in France, I think. They also have the Australian horse racing, and they have the Sun Games. So, I mean, there are three parts of our business that we are not involved in. So, it is not like for like. You cannot really compare it in that way.

But do you think, do you feel that your dependence on Kindred increased this year?

If you take away the 888 renegotiation, I would say it is the opposite, actually.

Okay. All right. Good. Yeah. You talked before about what could be a fair assumption for cost growth this year. Because if you say that 3%-5% is a bit high, I guess we end the year on roughly 15% or perhaps slightly lower. Is that a realistic assumption on the cost side?

Yeah, that is a fair assumption, yeah.

Okay. Very good. Thank you.

And we do have a follow-up question from the line of Christian Hellman from Nordea Markets. Please go ahead. Your line is open.

Hi. Thanks. I just had a follow-up, or not a follow-up, it is a new question. But on the retail product that you have, if you could just speak a little bit about that. I am thinking about, well, on one side, how much it is affecting your OpEx, how much you are devoting to the retail product in terms of cost, and also potential for that product going forward? You signed a contract with Novomatic some time ago, and basically, what do you see for that product going forward in terms of potential?

Yes. So, if we start with the cost, I think the OpEx cost is almost it is very, very low. On the development side, yeah, we have some developers working on it, of course. So, it is a part of the full CapEx cost, but it is. I do not know if we can give you any exact figures on it. But yeah, it is a part of our current development. It is not. I think we are using two out of 19 teams on retail at the moment. For revenue side, currently, it is not a very large part of our business. We have installations mainly in Mexico, but also in NagaWorld, in Cambodia, and in Belgium with Napoleon. But currently, it is small business. The potential, however, I still feel is very, very strong. You have to remember that our current sports betting business revenues globally is still about 70%.

And specifically on the Novomatic deal, what could we expect from that one going forward?

I cannot really answer that. Currently, we are only operating on Greentube online. I obviously hope to get into the Novomatic retail as well.

All right. Okay. Thanks.

Thank you.

Ladies and gentlemen, as a reminder, if you do have any questions, please press 01 on your telephone keypad now. There are currently no further questions registered, so I will hand the call back to the speakers. Please go ahead.

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