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Kambi Group

Q4 2016

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MODULAR FINANCE

Prepared Remarks

Good morning, and welcome to Kambi's fourth 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 signings, Televisa and Greentube, followed by Kambi initiative. This time, I will talk about the price differentiation. After the conclusion of our 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 525 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. Let's look at the quarterly highlights on slide four. As reported across the industry, December was a month with very player-friendly outcomes. December produced the worst betting margin for Kambi since we started in Q3 2014. As a year-to-year benchmark, it compares to December 2015, the best month regards to betting margins in the same period. The nature of our business can produce extraordinary short-term swings. The December 2015 margin was more than 70% higher than the margin in December 2016. On a quarterly basis, this kind of volatility is, of course, highly unlikely.

Despite this, I am very pleased to report that our operators continued to demonstrate the underlying strength of Kambi Sportsbook and reported a solid increase in turnover, even when compared to a very strong Q4 in 2015. Our turnover increased by 19% despite the negative impacts from currency comparisons year on year. I am excited that Kambi has secured its first full contract in Latin America with the signing of Televisa. We are now looking forward to building on this foothold across the region. In Q1, we are also delighted to see an immediate impact from our partnership with the Novomatic Group, as we have signed a contract with one of its subsidiaries, Greentube. In November, EGR published their yearly Power 50 list. Seven of Kambi's operators are represented on that list, with two in top 10. Furthermore, three of these operators were signed during 2016.

Also, as a part of our empowerment strategy, Kambi has launched its first version of price differentiation, which I will speak more about later. 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, this quarter we have seen solid growth in the turnover of our operators. However, a dip in the operator margin impacted our revenues for the quarter. Revenue for Q4 2016 was EUR 14.3 million, marginally up on the Q4 2015 figure. This was driven by a solid increase in the turnover of the operators, offset by the weak margin. I will look at this in more detail later. This brings the revenue for the year to EUR 56 million, up 17% from last year. Operating profit for the quarter was EUR 1.8 million, at a margin of 13%. This compares to EUR 3.3 million last year. This operating margin was directly affected by the weak trading margin for the quarter, along with our planned increase in operating expenditure as we continue to invest in building our premium Kambi Sportsbook.

For the full year, the operating profit is EUR 8.8 million, at a margin of 16%, compared to EUR 7.4 million in 2015. Our cash flow, excluding movements in working capital for the quarter, was EUR 1 million. For the full year, the cash flow was EUR 4.1 million. The net cash at the end of December was EUR 25.1 million. Let us 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 Q4, we have seen a healthy level of turnover placed to the operators we support, up 19% from Q4 last year.

Circled on the graph, we see a marked pattern in both 2014 and 2016 in operator turnover. These are both years where the summer contained a major football tournament. We are very pleased with the growth in operators' turnover. This quarter, the overall operator margin was around 6.3%. This margin was in particular impacted by bad results in the Premier League in December, at a time when other major football leagues were on winter break, so there was less diversification of the trading risk. This was an industry-wide issue. Let us 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 have seen in some of our larger contracts has seen these operators achieve lower effective commission rates. As we support the growth of our operators into regulated markets and in 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 Q4 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 operators' turnover, but rather provide a fixed income stream. Sterling was significantly weaker in Q4 2016 than in Q4 2015.

The impact was to reduce the reported value of transactions from end users based in the U.K., with the impact being approximately EUR 0.2 million. Whilst the biggest effect on revenue was from the weak operator margin, these other areas also had an impact on our revenue for the quarter. Operating expenses for the fourth quarter were EUR 12.5 million. The main elements include staff costs, live information feeds, office costs, and marketing costs in relation to our attendance at the biannual World Lottery Association Summit in Singapore. Overall, this gives us a profit from operations of EUR 1.8 million, compared to EUR 3.3 million last year, and a profit after tax of EUR 1.2 million, compared to EUR 2.9 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 October 1st was EUR 29.3 million. Working capital for the quarter was positively impacted by a decrease in debtors due to the early settlement of certain invoices. Capitalized development costs in the quarter were EUR 2 million. The amortization charge on previously capitalized costs was EUR 1.5 million. As a result of these transactions, our closing cash balance was EUR 32.3 million. Now let me pass you back to Kristian. Turning to slide nine.

Thanks, David. As I mentioned earlier, Kambi has secured its first full contract in Latin America with the signing of Mexican media giant Televisa. Kambi will be the exclusive supplier of sports betting services for the 17 PlayCity casinos and online. Televisa is the largest media organization in Latin America, and this contract follows a successful proof of concept where Kambi deployed its retail offering into two of PlayCity's casinos. We are delighted that PlayCity customers have embraced the product so well and look forward to not only expanding the land-based distribution, but also going live via online and mobile channels during 2017. Turning to slide 10. Last week, Kambi signed a contract with Greentube. Greentube is a global interactive business unit of Novomatic and is a full-service provider in the online and mobile gaming sector. This contract follows the MOU with Novomatic Lottery Solutions announced in October 2016.

Kambi will offer its fully managed service to Greentube's brands in regulated markets in Europe. The partnership has the potential to be an important pan-European sportsbook player alongside its already successful casino brands. Finally, turning to slide 11, I would like to highlight the Kambi initiative, price differentiation. Our price differentiation tool allows operators to adapt their pricing to their marketing strategy by controlling the payback in order to optimize the return for each regulation they are active in. This gives operators opportunity to strengthen their competitiveness in certain markets and choose to earn higher margins in others. The flexibility offered through the price differentiation tool strengthens our service proposition also to new prospects. This is a major leap in our mission to create technology that marries Kambi's quality and operational excellence with each operator's unique marketing expertise.

This gives our operators opportunity to be empowered with tools for innovation and personalization in their respective offerings. Let me summarize on slide 12. Q4 was not a good quarter in terms of revenues. The result was negatively impacted by very low betting margins in December. However, fundamentally, the operator group was solid. We signed five high-quality operators during 2016, and we have signed another one already in 2017. We see an increasing interest for outsourcing of sports betting, but also stiffer competition. On the whole, we believe strongly in our sales pipeline. We are confident in our strategy of investing in people and technology to maintain our premium position as the highest quality service in an evolving market. With that, 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 wish to ask a question, could you please press 0 and then one on your phone keypad now in order to enter the queue? Then after I announce you, simply ask that question. If you find that question has been answered before as you turn to speak, just press 0 and then two to cancel. There will be a brief pause while any questions are being registered. Once again, if you have a question, please press 0 and then one on your phone keypad now. Our first question is over to the line of Rasmus Engberg at Handelsbanken. Please go ahead, Rasmus. Your line is open.

Yes, thank you. Good morning. I was wondering, did you comment about January and February? If you did that, can you reiterate what you said about that?

Hi, Rasmus. No, we haven't commented on the start of January and February. We have a policy of not doing it since some of our operators are also obviously listed, and we let them comment on the results. But I can tell you this much, that if you have followed Premier League, it has been quite a lot better results in January than December.

Yeah, that is right. Greentube, I must admit to not having heard about that. Can you give some examples of brands that use their technology currently?

Greentube, it is their own brands, and I think it depends a little bit on market, but the most known ones are StarVegas in some of the Southern European markets, and Admiral.

Right. Okay. Thank you. That was it for me at this point. Thank you.

Thank you.

We are now over to the line of Anders Hillerborg at ABG Sundal Collier. Please go ahead. Your line is open.

Hi, Anders here. With regards to the price differentiation, when will that be implemented for the operators?

Some of the operators, it is already implemented on. From Kambi's side, they can run on it directly, all of them, but it takes some very small adjustments in the integration from each and every operator side.

Okay. Thanks. Then just finally, you have signed a few customers lately. Not all of them are fully rolled out yet. Could you give some indication of the rollout plans for the recent clients you have signed, Greentube and the other that you have signed lately?

I struggle a little bit of giving you data because it's not 100% clear for us either, but I would expect both of them to partly or fully being rolled out during the first half year.

Okay, great. Thanks.

Thank you.

We now go to the line of Bile Daar at Keel Capital. Please go ahead. Your line is open.

Thank you. Obviously, sports betting margins were weak in the quarter, but could you give us an indication of the P&L impact if the margin would have been at normalized levels, just to get a better feel for the drop through and the operating leverage?

Hi, Bile. I mean, I guess at a very high level, you can say, it was at 6.3%, and if it would have been at 7%, then approximately 10% higher on the part that is commission, which is the largest part of our revenue stream.

Okay, thank you.

Yeah, you can imagine.

Also, I went late in the Q&A queue here, but did you provide a timeline for Televisa and R. Franco, or is R. Franco already live?

R. Franco is already live. They started operating in November. Televisa, as I mentioned, we're not 100% clear on the date just yet, but I would expect during the first half year.

Okay, thank you. That's all for me.

Just to remind all participants one final time, if you have any questions, please press 0 and then one on your phone keypad now. We have a final question from Rasmus Engberg at Handelsbanken. Please go ahead. Your line is open again.

Yes. I just wanted to check my own assumptions here. Can you roughly elaborate what the FX impact was on earnings in this quarter?

Yeah, I mean, on the revenue side, I'd say the weak pound reduced our revenues by around EUR 0.2 million.

Overall, on costs, we're actually pretty much neutral on FX, with the varying impact of assets and costs held in GBP and SEK. So, overall, it's more on the revenue side, EUR 0.2 million is the main thing.

Okay. All right. Thanks.

That seems to be the final question for today, gentlemen. May I please pass it back to you for any closing comments?

Okay. Thank you for your questions and for listening in. We look forward to updating you on the 26th of April when we publish the first quarter results of 2017.