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# Kambi Group Plc (KAMBI.SE)

Q3 2014 Earnings Call

## CORPORATE PARTICIPANTS

Kristian Nylén

*Chief Executive Officer, Kambi Group Plc*

David Richard Kenyon

*Chief Financial Officer, Kambi Group Plc*

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## OTHER PARTICIPANTS

Dawid Myslinski

*Analyst, Redeye AB*

Jane Anscombe

*Analyst, Edison Investment Research*

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## MANAGEMENT DISCUSSION SECTION

**Operator:** Ladies and gentlemen, welcome to the Kambi Group Results for the Third Quarter 2014. Today, I'm pleased to present Kristian Nylén, CEO; and David Kenyon, CFO. For the first part of this call, all participants will be in listen-only mode, and afterwards, there'll be a question-and-answer session.

Speakers, please begin.

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Kristian Nylén

*Chief Executive Officer, Kambi Group Plc*

Good morning and welcome to Kambi's third quarter result presentation. I'm Kristian Nylén, the Chief Exec. And also here is our CFO, David Kenyon. Turning to slide 2, you can see the outline of our presentation. I will start with the highlights of the quarter. David will give the financial updates, and then I will elaborate on some of the initiatives during the quarter and discuss integrity in sports. After conclusion of our presentation, we will open up for questions.

For those of you [ph] new here (00:00:56) to Kambi, let me start by giving you a brief introduction to Kambi on slide 3. Kambi is a premium turnkey sports betting service, offering multiple channels such as web, mobile and retail. Our service is managed from in-house developed platform that has been continuously developed during the last decade. The platform, together with our highly skilled staff, forms the foundation of our service.

Our business model is scalable and we don't envision any significant extra costs for acquiring new customers. We currently offer our [ph] fixed sports (00:01:39) service to 11 customers and most of them are outperforming the market.

Our quarterly highlights are shown on slide 4. The third quarter showed continued growth with revenues increasing by 68% compared to last year. Year-to-date revenues are up 78%. Revenues from the quarter are, to

some extent, boosted by the World Cup but not at all in the same magnitude [ph] as was (00:02:11) during Q2. The last 10 out of 64 matches of the World Cup were played in the third quarter. As the important grew during the tournament, so did the stakes, and these 10 matches accounted for 7% of total stakes during the quarter. The result of these matches were also very favorable. It was, in general, a very successful tournament for Kambi and our operators.

In August, 888 launched sports betting in Spain. As 888 is one of the leading operators in the casino and poker verticals, we have high hopes that they will be also successful in sports betting segments. Furthermore, during the quarter, we have extended the contract with Luckia, and we expect to make further extensions during Q4 to secure the majority of our existing contracts.

In several presentations since we announced the separation from Unibet, I have stressed the importance of gaming memberships in the lottery organizations. In Q2, we announced our membership in the European Lotteries. And during Q3, we have also obtained membership in WLA, the World Lottery Association.

I will now hand over to David for more details on the results.

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## David Richard Kenyon

*Chief Financial Officer, Kambi Group Plc*

Thank you, Kristian. Good morning, everyone. First, I'm going to talk you through our headline results on slide 5. Then I'll take you behind those numbers and show you the impact to the quarter of continued growth.

Revenue for Q3 2014 was €9.5 million, up 68% on the Q3 2013 figure. This brings the revenue for the first three quarters to €26.7 million, up 78% from 2013. The operating profit for the quarter was €0.9 million. This compares to an operating loss before exceptional items of €1.6 million in Q3 2013.

Year-to-date, the operating profit, excluding the listing cost, is €2.2 million compared to a loss of €5.8 million for the same period last year. After tax and interest costs, our Q3 results was a profit of just under €700,000. And year-to-date, the results after tax is €734,000. These results contributed to a strong cash flow for the quarter. Excluding movements in working capital and financing activities, the cash flow was €1.2 million for the quarter bringing the year-to-date figure to €2.2 million.

So let's now look at the income in some more detail, focusing on the Kambi Turnover Index on slide 6. The stakes managed by Kambi are up by 47% year-on-year. Excluding the stakes from the World Cup, the growth is still 37%. And it is safe to assume that a certain amount of the turnover coming from the World Cup would have been staked from something else if there had not been a tournament. The margin generated for our operators was well above the historical long-term average at 9%. We still expect the long-term average to be somewhere between 7.5% and 8% with our current composition of our offering and customers.

Margins, which are too high, have a negative impact on the turnover as players largely tend to reinvest their winnings. These increases in turnover and margin boosted the [indiscernible] (00:06:16) which is commission based on profits generated for our operators. Our income also comprises some fixed fees and charges linked to the number of events being provided. The net effect of all of these was to increase our income by 68% compared to Q3 last year.

We've talked a lot about what these 64 World Cup matches can do for the interest in sports betting. So what happens now the tournament is over? The good news is that hopefully our operators have attracted new players during the World Cup and now we are entering the strongest period in the event calendar. October to April are

traditionally the strong sports months as all the major European football leagues and other popular sports such as tennis, basketball, and ice hockey are in full season. Due to tennis having a break in December, together with some football leagues taking a Christmas break, December is typically a bit slower, but the next two quarters should show good activity.

So let's move on to the cash flow on slide 7. Set out from this slide are the major components which impacted our cash position during the quarter. Our opening cash balance from the 1st of July was €18.5 million. Working capital increased by €1.9 million predominantly due to a decrease in [ph] trade debtors (00:07:45). This is down to the timing of cash receipts for our invoices and also reflects a relatively high [ph] debtor position (00:07:53) at the end of June. It's a high level of revenue generated by the Football World Cup.

Capitalized development costs in the quarter were €1 million. Q3 is usually a quarter with relatively low levels of staff costs being capitalized due to the summer vacation period, a pattern that was also seen in 2013. Tangible assets of €0.4 million were purchased in the quarter, this related to planned investments for the continued development of our technical infrastructure. As a result of this transaction, our closing cash balance was €21.6 million, which we believe puts our balance sheet in a very strong position.

So now let me pass you back to Kristian.

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## Kristian Nylén

*Chief Executive Officer, Kambi Group Plc*

Thank you, David. During the quarter, we started a couple of initiatives that will have an impact on the future and that I would like to share with you turning to slide 8. As previously stated, Kambi's core focus is Europe and it will continue to be. Having said that, we have decided to broaden our efforts outside of Europe.

Our first step is by adding sales representation in South America. We have followed the South American market closely for some time and as many jurisdictions are coming closer to re-regulation. This is the right time to add resources closer to our market. We do not have any short-term expectations on this market and the investment is small.

The second initiative we wanted to highlight today is what we, for now, call instant betting or quicker betting options on live betting. In a world moving ever faster, the need for more instant sports betting options is growing.

In other part of the gaming industry, these developments have gone much quicker as games are based on random number generators. Since sports betting is dependent on physical event. There have been some practical issues to overcome to make betting on fragments of an event possible and interesting.

First, the trader must get the information virtually in real time, so it's not possible for someone at the event to take an advantage of the information. Secondly, push technology is very important so the players can consume relevant data as soon as it's published. Then, of course, it helps to have the back-office tools to create change and settle bet offers with minimal manual input.

Moving on to slide 9 and an example of what I'm talking about. It takes 39 seconds from the player placing the bet, the point is played, and a settlement is made. Let's look on a video how it looks from a player's point of view.

[Video Presentation] (00:11:22-00:11:55)

We have done instant betting for some time, already with success. In tennis as we shown here for example, we have offered bets on individual points in the bigger tournaments for years. Kambi is not alone doing this, but there are very limited number of operators offering these kind of bets at the moment. During World Cup, we tested betting on throwing the football, and it was quite [ph] a success (00:12:24).

We have now started to try out other forms of instant betting in many other sports. This is an area which creates a competitive advantage for our existing customers and strengthens our value proposition towards new prospects. We believe Kambi has a strong edge in this area due to investments we have made in staff and technology.

Turning to slide 11, let's talk about integrity in sports. Tonight, it's a deciding match in baseball's World Series. Ninety five years ago, the largest fixing scandal in sports happened when Chicago threw the World Series. Due to recent publicity in Sweden around match fixing, I believe it's appropriate to raise the subject from a candidate's perspective. From a financial risk perspective on an individual event, Kambi has the proper tools and processes in place to protect our customers from any severe damage.

Having said that, match fixing is a serious problem which poses a major risk to industry. If the public cannot trust the game is fair, they lose reason to bet. Kambi with its industry knowledge is well-positioned to support and educate operators, regulators, and sports federations. Kambi has a dedicated team already working closely with partners such as FIFA Early Warning System in the fight against any suspicious or illegal activity.

To sum it up on slide 12, Kambi has seen another strong quarter. The revenue was boosted by the World Cup but mainly driven by a very strong performance from our customers. We extended the contract with Luckia during the quarter and expect to make further extensions during Q4 to secure the majority of existing contract. We feel Kambi is very well-positioned and we are investing in the future by broadening both our service and our market reach.

David and I would like to thank you for your interest in Kambi. And now, we open up for questions. Thank you.

## QUESTION AND ANSWER SECTION

**Operator:** [Operator Instructions] We have a question from Mr. Dawid Myslinski at Redeye. Please go ahead.

Dawid Myslinski

*Analyst, Redeye AB*

Q

Hello, guys. Just a question on the regulation issue that is kind of arising perhaps for real this time in Sweden, could you shed some light, if you will, on how a, let's call it, a Danish model in Sweden would affect you?

Kristian Nylén

*Chief Executive Officer, Kambi Group Plc*

A

Thank you, David. Yes, of course, it will have an impact on our short-term revenues from the customers we have in Sweden. So we have a Danish model. We have tax on commission. So the revenues we will receive from our customers will also be deducted after tax. So we will have a proportional [ph] hit to for instance during a bet in this case (00:16:12). On the other hand, a regulation will give us a lot of new opportunities in the market. I believe, for instance, we have a new regulation a company like ATG will be a very interesting player on a new market. I also believe a company like [indiscernible] (00:16:35) will have to look on further strengthening their sports book, so that could also be an interesting play for us to look at.

Dawid Myslinski

*Analyst, Redeye AB*

Q

Okay. And I really, I must say I really love what you're doing with the instant betting. And as you mentioned that it's quite a mode, a competitive advantage. And you also mentioned others were doing this as well. Could you just name one or two others B2B sports book providers that you see are kind of your main competitors or how many main competitors would you say there are?

Kristian Nylén

*Chief Executive Officer, Kambi Group Plc*

A

Doing instant betting at the moment, I don't like to give names on competitors as you can understand, but our traditional B2B competitors, we don't really see anyone being – doing what we call instant betting here. But there are a company or two coming up who is focusing on instant betting as well. But I don't want to mention any names on it.

Dawid Myslinski

*Analyst, Redeye AB*

Q

Okay. But it sounds like you are pretty much – it's a very limited group, which you could say would be – it's a very limited number of competitors out there that could match your offering or be close to it, so to speak.

Kristian Nylén

*Chief Executive Officer, Kambi Group Plc*

A

At the moment, yes.

Dawid Myslinski

*Analyst, Redeye AB*

Q

Okay. There was a – on the financial side, there was a very nice increase in EBIT, looking at the increase in revenue. Is that something – you mentioned also the scalability of your business model. So is this something we could expect also going forward that EBIT will increase almost as fast as revenues or are there any sort of investments that you have to make or increase OpEx in some other ways? I mean if you have like, for certain levels, you have to employ more people and so on.

David Richard Kenyon  
*Chief Financial Officer, Kambi Group Plc*

A

Yeah, hi, it's David here. Well, I think [indiscernible] (00:18:53) on cost. One is obviously we are now a listed company and that's supposed to be within a certain extra level of cost, so that is driving some of the cost increases you've seen from previous quarters. On top of that, we will continue to employ more staff in a controlled manner just to offer a further – and what better product really in terms of baseline setting and also on the IT to be able to keep developing the product. So there will be some cost increases, but really that should be quite a controlled manner. And then any growth in the top line should, on top of that, slow down to EBIT.

Dawid Myslinski  
*Analyst, Redeye AB*

Q

Okay. Crystal clear. Okay. Thank you very much.

**Operator:** We have a question for [ph] Mr. Duli Dar (00:19:33) at Danske Bank. Please go ahead.

Q

Thank you. I was just curious about you've become members in different association or associations different association, lottery associations across the globe, Latin America, the most recent one, if I understand things correctly. And what's the – could you just remind us again the long-term perks of being a member in those associations?

Kristian Nylén  
*Chief Executive Officer, Kambi Group Plc*

A

[indiscernible] (00:19:59) yeah, I mean, the perk, as you'd said, is that we get a much better network into the lotteries, and that gives us an opportunity to start talking and interacting with the different lotteries around the world, far in advance of a potential RFP. And that's really important because, when a request for proposal is coming out, it's too late if it's not written. So you have a good chance of winning it. So it's very important for us to being able to network on the conferences of EL and WLA.

Q

Okay. Thank you. And then, in terms of sort of new client recruitments, just curious to get a feel for where you're putting your effort. Is it primarily Tier 1 operators and monopolies, and how do you go about the sort of smaller and potential clients because you have a number of smaller operators in your portfolio today. What limits you from taking onboard additional ones?

Kristian Nylén  
*Chief Executive Officer, Kambi Group Plc*

A

Nothing is really limiting us. I would say it's more about – I mean, taking on too many small ones, you dilute your values to the bigger ones to a certain extent. So I think that is probably the biggest reason not to take on everyone. The costs to take on a new customer is, as I mentioned before, very small. Having said that, we will take on smaller customers if we see a strategic value in it, especially if it's in new markets where we are not very present with our current customer base.

Q

Okay. Thank you. And then a final question on sort of sports betting margins. I think from looking at Unibet's report this morning and Autobet, if you look at the sports betting margin overall over the past two years or so, they've been steadily been increasing. And is it sort of – is there a decoupling between the actual theoretical margin that the punters are subject to compared with the margins that you actually collect as an operator, i.e., is there an element of scalability from risk management point of view that makes sure that you don't dilute the customer offerings, so to say?

Kristian Nylén

*Chief Executive Officer, Kambi Group Plc*

A

Yes. I mean, I would say, during the last five years at Kambi, we have certainly become better and better on risk management and manage it far better. If you take on a regular customer base, I would say that the margin has not increased. What's happening is that we are losing less and less money proportionately to [ph] smart partners (00:23:11). And that's why the margins are going up. But on the other hand, as I said, I believe this quarter is well above what we can expect for the future.

Q

And sort of could you give us any indication as to – because I get different interpretations of how October started, someone claiming that the sports betting margins down year-on year, others are suggesting that it's up. Is that – could you give us any sense for how October has started?

Kristian Nylén

*Chief Executive Officer, Kambi Group Plc*

A

We are choosing not to give any big indication on that. But I'm sure if you will listen to Unibet and they give an indication, you can probably draw some conclusions on outlooks for us as well.

Q

Okay. Fair enough. Thank you.

**Operator:** We have a question from Ms. Jane Anscombe at Edison Investment Research. Please go ahead.

Jane Anscombe

*Analyst, Edison Investment Research*

Q

Hi, yes, good morning. A couple of questions please. In South America, can you say which markets you have representation in whether that would include Brazil? And since you've joined the Latin American Lottery Association, does that imply obviously that you're targeting those lotteries and sports betting groups?



Kristian Nylén

*Chief Executive Officer, Kambi Group Plc*

A

So [ph] for your first question (00:24:37) we're – yeah, we have sales representation in South America and I mean they will travel around South America. So we're targeting pretty much every country where we see possibilities there. For your second question about targeting both lotteries and other groups, yes, the lottery is a very interesting part of the business in our opinion. So that's certainly something we target, but we're also looking at large media groups, land-based casino groups we don't see in South America.

Jane Anscombe

*Analyst, Edison Investment Research*

Q

And in terms of lottery potential clients not just in Latin America but worldwide in Europe, presumably it's a long sale process, would you hope to have a lottery clients by say the end of 2015?

Kristian Nylén

*Chief Executive Officer, Kambi Group Plc*

A

I wish I could answer that but I can't. Of two reasons, I can't really answer it until we publish it. And secondly, I don't really know.

Jane Anscombe

*Analyst, Edison Investment Research*

Q

I was just asking. And my final question is on mobile, smart phones, and tablets where some operators have been reporting strong growth in that percentages, and I wondered if you could give any indication of the importance of the growth in that segment for your business.

Kristian Nylén

*Chief Executive Officer, Kambi Group Plc*

A

Yeah I mean, we haven't given any indication ourselves. But as Unibet talked about this morning, I think they talked about the 55% growth in the mobile segment. So, obviously, it's [ph] 55% on the gross winning top (00:26:26). And obviously, I mean for us it's pretty much a very strong growth as well, obviously.

Jane Anscombe

*Analyst, Edison Investment Research*

Q

So, if I looked at Unibet, I could kind of track broadly across?

Kristian Nylén

*Chief Executive Officer, Kambi Group Plc*

A

Yes.

Jane Anscombe

*Analyst, Edison Investment Research*

Q

Thank you so much.

Kristian Nylén

*Chief Executive Officer, Kambi Group Plc*

A

Thank you.

## Kristian Nylén

*Chief Executive Officer, Kambi Group Plc*

Any more questions? Okay. Thank you for your questions and for listening in. We're looking forward to updating you on the 11th of February when we release the fourth quarter report. Thank you.

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