

11-Feb-2015

Kambi Group Plc (KAMB.SE)

Q4 2014 Earnings Call

CORPORATE PARTICIPANTS

Kristian Nylén

Chief Executive Officer

David Kenyon

Chief Financial Officer

OTHER PARTICIPANTS

Bile Daar

Danske Bank A/S (Sweden)

Dawid Myslinski

Redeye AB

Jane Anscombe

Edison Investment Research Ltd.

MANAGEMENT DISCUSSION SECTION

Operator: Ladies and gentlemen, welcome to the Kambi Group Q4 Report 2014. Today, I'm pleased to present Kristian Nylén, CEO; and David Kenyon, CFO. For the first part of this call, participants will be in listen-only mode, and afterwards, there'll be a question-and-answer session. Speakers, please begin.

Kristian Nylén

Chief Executive Officer

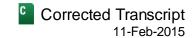
Good morning and welcome to Kambi's fourth quarter results presentation. I am Kristian Nylén, Chief Executive. And also here is our CFO, David Kenyon. I will start with highlights of the quarter. David will give the financial update, and then I will talk about risk management and the use of real-time analytics. After conclusion of our presentation, we will open up for questions.

Let me start by giving a brief introduction to Kambi on slide two. Kambi is a premium turnkey sports betting service offering multiple channels such as Web, mobile and retail. Our service is managed from an in-house developed platform that has been continuously developed during the last decade. That 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 fixed-odds service to 11 customers, and most of them are outperforming the market.

Turn to slide three. The global sports betting market is worth around €40 billion. We estimate that around 25% to 30% of that is our addressable market. Kambi currently has less than 1% of the global market. There is clearly some upside, albeit with a lot of hard work required.

Our quarterly highlights are shown on slide four. In Q4, Kambi again delivered strong numbers with a 52% revenue increase. Q4 is normally the strongest quarter of the year. The big leagues in all major sports are in full

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force with a slightly lower activity in December due to many football leagues and the main tennis stores having a break.

The betting margin was significantly lower than last quarter due to more unfavorable results. So I'm very happy to present such strong figures. During the quarter, we were pleased to see that Napoleon Games extended its contract long term, and it's great to see our customers showing confidence in our service. Kambi also gained its third national lottery membership with the Latin American Lottery and Betting Association, CIBELAE.

I will now hand over to David Kenyon who will talk you through the financial highlights. Turning to page five.

David Kenyon

Chief Financial Officer

Thank you, Kristian. Good morning, everyone. First, I'm going to talk you through our headline results at the financial year-end, then I will discuss the figures in some more detail. Revenue for Q4 2014 was €9.3 million, up 52% on the Q4 2013 figure. This brings the revenue for the full year to €36 million, up 70% from 2013. The operating profit for the quarter was €0.6 million at a margin of 6%. This compares to an operating loss before exceptional items of €1.5 million in Q4 2013.

For the full year 2014, the operating profit, excluding the listing costs, is €2.8 million compared to a loss of €7.3 million for the same period in 2013.

After tax and interest costs, our Q4 result was a profit of €234,000 and year-to-date, the results after tax is €967,000. These positive results fed through to our cash flow for the quarter. Excluding movements in working capital and financing activities, the cash flow was €0.7 million for the quarter, bringing the full year to €2.8 million.

So 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 profit margin made by the operators from their end users powered by our service.

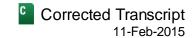
In Q4 2014, we see an all-time high level of turnover placed to the operators we support, up 38% from the same quarter last year. This was driven by the growth of our existing customers who we see outperforming the market and the impact of new operators.

In Q3, we discussed how the high margin in that quarter was above the optimal level for our operators. This quarter, it fell to around 7%, which is below the long-term average of approximately 7.6% after some challenging results in some key sporting events, in particular, the Champions League and the English Premier League.

These movements in turnover and margin impacted the part of our revenue, 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 these was to increase our income by 52% compared to Q4 last year.

So let's move on to the cash flow on slide seven. Set out on this slide are the major components which impacted our cash position during the quarter. Our opening cash balance on the first of October was $\mathfrak{C}21.6$ million. Working capital increased by $\mathfrak{C}0.9$ million, predominantly due to a decrease in trade sectors.

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Capitalized development costs in the quarter were €1.2 million, which principally related to system automation, front-end, and retail projects. As a result of these transactions, our closing cash balance was €23.2 million.

So now, let me pass you back to Kristian turning to slide eight.

Kristian Nylén

Chief Executive Officer

Thank you, David. Each quarter our intention is to give a deeper insight into a specific area of our service. Today, I will focus on our risk management and customer profiling, and how we have started to work with real-time analytics.

First, a graph illustrating a sample of winning and lo sing players. The red dots represents bets from players that after 100 bets were winning customers; and the green are bets from customers who are losing.

As you can see, after 30 bets it's impossible to predict a player's future profitability yet from the ir current margins. As more and more bets are placed, the margin obviously becomes a stronger indicator, but our job is to identify patterns as early as possible.

This is just an example, with one set of winning players after 100 bets and one set of losing. In reality, even 100 bets are too few to give a good prediction looking at margin. Therefore, over several years, we have been developing algorithms to predict different player patterns.

Go to slide nine. This graph illustrates two different uncorrelated measures that give a solid indication of future profitability without measuring profit and loss at an early stage. I will not go into too much detail about these metrics, but you can clearly see how the green dots are separated from the pink and blue on es representing different player profiles. Together, these metrics gives us a very confident prediction on the player profile at an early stage, which we can use to optimize our risk management process and our service. Let's turn to slide 10.

For real-time analytics, one area where it's of utmost important is court siders. Court siders are customers who have sought their access to data from the event, one Kambi can get. For example, the player may be at the event, whereas Kambi are using slightly delayed TV feed. By using this data, this type of player can play the sure bet, knowing the outcome before we have suspended the offer or changed rounds.

Of course, we can protect ourselves from this by having a long grace period or countdown, as we call it, befor e a bet is accepted. But that affects the user experience for all customers. By being able to analyze these patterns in real time, we can individually adjust and optimize a countdown in real time event by event.

Protected by real-time analytics, we can – with our trading, our client designs, and our standout thought base offer a standout thought base of exciting product for the end user. Let's see an example from our mobile solution on slide 11.

For those just listening on phone without watching the presentation, we are now showing a short video of Kambi mobile interface. During less than 60 second, a bet is placed, a tennis point is played, potential winnings are paid out and a new bet is published.

Turn to slide 12. Finally, I would like to share with you the good news that we received last week when Gaming Intelligence awarded Kambi the prize of Sportsbook Supplier of the Year.



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. Bile Daar from Danske Bank, Please go ahead. Bile Daar Danske Bank A/S (Sweden) Thank you. I was just wondering, could you sort of - if you specify on a quarterly basis which quarters that typically contain the highest share of live betting events and the sort of the lowest state of live betting events? I think you understand what I'm looking for. And then also, Q1, does that contain more live betting than Q4 considering the Australian Open? Kristian Nylén Chief Executive Officer Yeah. Actually, I will say the live betting is quite well spread out in a number of events during the year. Of course, tennis is very important, so there are numbers we get from live betting during December, for instance, when tennis is not very active. It's slightly lower on average. But so, yeah, I can say the activity is quite well spread around the year. We try to find the events from other sports during the summer, for instance, doing more things like beach volleyball and other things when the football season is lower. But yeah, you're right, during the Q1 the numbers are higher live betting due to Australian Open and a lot of other tennis events compared to O4. Bile Daar Danske Bank A/S (Sweden) Okay. Thank you. And then could you also give us an update on the progress in South America? And also if you've - in terms of regulatory changes, could you highlight which market they might be opting for licensing online markets? Kristian Nylén Chief Executive Officer Yeah. I can't give you very much detail on South America, but yeah, we have seen quite a positive start there. I think we're up and running with the work we want to do there. And I hope something will materialize at some point. When it comes to licenses in South America, Mexico is the one -I know that's not South America actually, but we count it to that. Mexico is the one that we believe will have the first. There are talks in a lot of other countries, but as you're well aware of, in Sweden, it has been talked about it for a long time as well. So when it materialize, it's hard to say, but I believe Mexico will have them fairly soon. Bile Daar

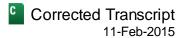
Okay. Thank you. And then also on one final thing, I think I spent a couple of days at the ICE fair in London the other week, and you were obviously present there as well. But one thing that I've noticed was that a couple -a handful of the sports betting suppliers have sort of stepped up their presence. Would you and have you noted a

similar increase among sort of operators for outsourcing of the sportsbook?



Danske Bank A/S (Sweden)

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Kristian Nylén Chief Executive Officer	A
Yeah, I think the interest is becoming bigger and bigger as the times goes by. So yes, I see our service now than I did a couple of years ago.	much more interest for
Bile Daar Danske Bank A/S (Sweden)	Q
Okay. Thank you.	
Kristian Nylén Chief Executive Officer	A
Thank you.	
Operator : Our next question comes from Mr. Dawid Myslinski from Redeye. Please go a	head.
Dawid Myslinski Redeye AB	Q
Hi, guys. Just a brief question on the Turnover Index, which you state increased by 38% y quarter. Could you give us any idea how much of that is just the underlying growth and he to new customers that weren't there a year ago I mean?	-
David Kenyon Chief Financial Officer	A
Yeah. Hi, Dawid. It's not — we can't publicly disclose the exact split, but it's fair to say that operators go live during 2014, plus the effect of 888 going live in Spain. So those are prob So the three new ones were NagaWorld, 32Red and Iveriabet. So those three plus 888 Spayou like, and the rest is run by the growth of the existing operators.	ably the four elements.
Dawid Myslinski Redeye AB	Q
Okay. Cool. Yeah, maybe that's something to consider for the future. But I understand that in sometimes, but I guess if you get more and more customers perhaps you could label it a underlying organic growth. But that, of course, could be confused to organic growth per set I had.	as some kind of
David Kenyon Chief Financial Officer	A
Okay.	
Dawid Myslinski Redeye AB	Q

Other than that, yeah, I think you shouldn't worry too much about the stock market's reaction to the report. I mean it's part of your business that margins go up and down. So yeah, I think anyone who's familiar with this

business in more than just superficially, they will not sell their shares today.

Kambi Group Plc (KAMB.SE) **Corrected Transcript** Q4 2014 Earnings Call 11-Feb-2015 Kristian Nylén Chief Executive Officer Thank you, Dawid. Dawid Myslinski Redeve AB That's all. Thank you, guys. **Operator:** Our next question comes from Ms. Jane Anscombe from Edison Investment, Please go ahead. Jane Anscombe Edison Investment Research Ltd. All right. Yes. Good morning. Two questions from me. Clearly, it's a very long sales cycle into the state lotteries. But can you give us any color on either progress or this kind of hurdles and steps and where you might be on that journey? Kristian Nylén Chief Executive Officer Well, yes, it is very, very long sales cycles. I think we are much, much better positioned now than we were one year ago. We are members of these lottery organizations that we have stressed. And that gives us a lot more access to different seminars and conferences to get to speak to people in a very early stage. And yeah, in general, I think the lotteries as well is much, much more open to outsourcing sports betting. So I have a very positive view on the lottery sector. Jane Anscombe Edison Investment Research Ltd. And is this presumably, predominantly lotteries that don't currently offer sports betting at all that are looking at it as a new product vertical? Kristian Nylén Chief Executive Officer I really don't want to comment on that at the moment. Jane Anscombe Edison Investment Research Ltd. Okay. And my final question, I mean clearly, obviously, you've had a strong growth from the new customers coming on stream and being on stream longer. Are you able to give us the percentage of revenues derived from Unibet or just roughly in 2014?

I'm afraid we have said that we will not disclose what the percentage is between Unibet and the others. So the best advice I can give you is to try to figure that out by, yeah, looking at the Unibet annual report and ours.

Kristian Nylén
Chief Executive Officer

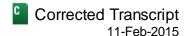
Kambi Group Plc (KAMB.SE) **Corrected Transcript** Q4 2014 Earnings Call 11-Feb-2015 Jane Anscombe Edison Investment Research Ltd. No problem. Thanks for that. Kristian Nylén Chief Executive Officer Thank you. **Operator:** Our next question comes from Mr. Bile Daar from Danske Bank, Please go ahead. Bile Daar Danske Bank A/S (Sweden) Yeah. Just a follow-up. Could you just help us understand? I mean the turnover grew 38% year-over-year. The sports betting margin was down year-on-year, but still revenues were up 52%. So what's the difference between the turnover and the revenue growth that report in Q4? Kristian Nylén Chief Executive Officer I'm not sure I understood the question. Yeah, you mean our revenues. Bile Daar Danske Bank A/S (Sweden) Yes. No, I mean the Turnover Index shows 38% year-on-year growth and margins are down throughout the same period and which would mean that if your commission would be down also on a like-for-like basis. But your revenues are actually up 52%. David Kenyon Chief Financial Officer Okay. Sorry. Yeah, I understand now. As I've mentioned and when I talked through it, our revenues aren't just from commission. Quite a large part is actually from like fixed fees, but more importantly here is the number of events we're providing. So, in most cases, that went up. We've been able to kind of increase that number with quite a few of our operators and those have brought additional revenues for us. Bile Daar Danske Bank A/S (Sweden) David Kenvon Chief Financial Officer And that stands aside from kind of the turnover levels and revenues generated for them. Bile Daar

But going back to what Kristian said earlier that the activity level in terms of live betting is typically evenly spread

out between the quarters, how should we think about that?

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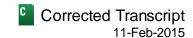
David Kenyon Chief Financial Officer Not all operators can take the full package. So some of them have been able to increase the number of events they bought from us during that period. Bile Daar Danske Bank A/S (Sweden) Okay. That would make sense. Okay. Thank you. **Operator:** Our next question comes from [indiscernible] (21:28) SEB. Please go ahead. Thanks. May be a follow-up on Bile's question there. Have you ever said or could you say how much of your revenues is commission today? How much is fixed fees? David Kenyon Chief Financial Officer It's not a split we've given. I mean it's fair to say the commission is certainly the largest part of it, but it's by no means all of it. Okay. David Kenvon Chief Financial Officer Simply more of less it's may be the smaller customers, the fixed fee are much higher as a percentage of what we make from it. Okay. Interesting. And also if you look ahead here, if you would add more events and more specific operators that

Okay. Interesting. And also if you look ahead here, if you would add more events and more specific operators that ask for specific events that you don't already have, can you get your kind of costs covered from day one or do you have to take some risks if you increase the number of events?

Kristian Nylén
Chief Executive Officer

Again, I would say the biggest driver for us increasing number of event is not from new customers actually. It is from our largest customers who want to have a bigger coverage. I mean if you're going to a local market, for instance, so that would be a very limited number of new events that we would have supplied. So everything is about, yeah, delivering more events on the long tail for the bigger customers [indiscernible] (22:53)

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Q

And looking into 2015, what do you see in terms of kind of cost increases and investments you need to make? I guess your biggest customer has quite many events already. So I mean what's the driver here?

David Kenyon

Chief Financial Officer

Д

Yeah. Hi, it's David. I mean I think there will be quite a significant number of extra live or more live events covered in 2015, which will both bring some kind of supplier costs where we pay for the information we use in those events, but also for the staffing out to cover them. Additionally, we're going to keep expanding on our IT development capacity and also our sales reach to really try and increase our sales pattern. So I think there will be some cost increases and we do refer to that in the quarterly report.

G

And when you do these investments, kind of which are related to a specific customer wanting increase their bets, I mean, for you, is this a kind of ramp-up cost where you are kind of loss-making initially for these investments or do you get it covered pretty quickly?

Kristian Nylén

Chief Executive Officer

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I will say we get covered pretty quickly when we increase the numbers.

Okay. And then a completely different question, I mean relating to the talks that to-date has been in talks with William Hill, we all know this is your second largest customer I guess. May be not speculating what they would do to the Kambi contract, but just if I could try to understand a bit more how these kind of contracts play out if they commit to certain volumes indicates that they would – one of your customers would be acquired. May be help us out what kind of protection do you have from consolidation which is bound to continue in this sector.

Kristian Nylén

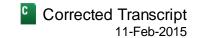
Chief Executive Officer



I can't really comment on individual contracts, but we have different amount of protection in different contracts. And, yeah, how long you can cancel out the one. I can't help you out very much on that, I'm afraid. But yes, as a comment in general, I think for us, when we started Kambi, we saw two things that had to happen in this business, and one was consolidation and the other was the need of sports betting suppliers to increase across efficiencies.

So of course, we hope that we can keep our customers. But in the end, I think we are very, very well set up in the business we are at the moment, and for a new kind of, yeah, area of the industry, I think consolidation will happen but I also think the need of cost-efficient sports betting solutions are very, very important for industry. So going back to our second slide, we have less than 1% of the market. So I think there are a lot of opportunities whatever happens here.

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Sure. I'm just trying to understand, if these things happen, which it will from time to time, an acquisition from one of your customers or something, I mean do you have some kind of - like Playtech has kind of exclusivity during the contract period for some of their products that you can demand exclusivity on one of your customers you want

contract linked. Just to understand this kind of protection, you don't get hurt too bad if something would happen	
Kristian Nylén Chief Executive Officer	A
Yeah, we have some protection definitely.	
	Q
But no more details or -?	
Kristian Nylén Chief Executive Officer	A
No more details, I'm afraid.	
	Q
Okay. Okay. Thanks so much.	
Operator : We have a follow-up from Mr. Bile Daar from Danske Bank. Please go ahead. Mr. Bis open. Please go ahead. I'm afraid we can't hear Mr. Bile Daar. So we will go to the next quest Ms. Jane Anscombe from Edison Investment. Please go ahead.	• •
Jane Anscombe Edison Investment Research Ltd.	Q
Yeah, sorry, a couple of small follow-ups from me. On that point presumably, if clients did get they would have always the barrier in terms of migration issues of coming off your platform on platform and happy with your platform and going to anybody else's platform.	
Kristian Nylén	А

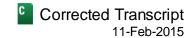
Yeah, yeah, yeah. I mean looking at – yeah, how long it usually takes in this industry to do migration, so that would definitely take some time. I can't comment how long it will take in this instance, of course. But what I've seen so far in the industry, migration is usually minimum 12 months.

Jane Anscombe

Edison Investment Research Ltd.

Yeah. And my second question, which is a small one. It was on slide nine, and I don't know whether I can go back there on the webcast, but it was that nice slide that showed your VIP, I think, customers, which are the green ones and then there were pink ARBs and blue WGs. And I know you were only showing it as an illustration of your

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customer profiling and your data. But given that you showed us that slide, can you just explain what the pinks and blues are?

blues are?	
Kristian Nylén Chief Executive Officer	A
The pinks are customers who are utilizing arbitrage. So it's mainly a robust looking at prices from different operators and utilizing the sure wins you can get. The blue ones are very skilled customers, who usually have a information advantage in some way.	
Jane Anscombe Edison Investment Research Ltd.	C
And the green ones were VIPs, weren't they?	
Kristian Nylén Chief Executive Officer	Δ
Yeah.	
Jane Anscombe Edison Investment Research Ltd.	C
Okay. Thank you.	
Kristian Nylén Chief Executive Officer	Δ
Thank you.	

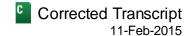
Operator: There are no further questions registered on the telephone. I'll hand over back to you, speakers.

Kristian Nylén

Chief Executive Officer

 $O kay. Thank you for your questions and for listening in. We look forward to updating you on the {\it 29}th of April when we release our first quarter report.$

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