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Kambi Group Plc (KAMBI.SE)

Q1 2015 Earnings Call

CORPORATE PARTICIPANTS

Kristian Nylén

Chief Executive Officer, Kambi Group Plc

David Kenyon

Chief Financial Officer, Kambi Group Plc

OTHER PARTICIPANTS

Bile Daar

Analyst, Danske Bank A/S (Sweden)

Dawid Myslinski

Analyst, Redeye AB

Jane Anscombe

Analyst, Edison Investment Research

MANAGEMENT DISCUSSION SECTION

[Abrupt Start]

Operator: ...ladies and gentlemen. Welcome to the Kambi Group Q1 Report 2015. 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 will be a question-and-answer session. Speakers, please begin.

Kristian Nylén

Chief Executive Officer, Kambi Group Plc

Good morning, and welcome to Kambi's first quarter result presentation. I am Kristian Nylén, Chief Executive. And also here is our CFO, David Kenyon.

Turn to slide 2. I will go through highlights of the quarter. David will give a financial update. And then I will talk about our recent efforts in the Italian market. After conclusion of the presentation, we will open up for questions. But first on slide 3, let me give you a brief introduction to Kambi. Kambi is the premier supplier of managed sports betting service enabling our customers to compete at the very highest level. Today, there are 11 successful customers on the Kambi network that are outperforming the market in partnership with Kambi. Kambi has an in-house developed technical platform that through scalability and agility is evolving fast while also guaranteeing stability to the operators. We are an organization of 380 people spread across four offices. The majority of our staff is working with trading or IT. The creativity, dedication and experience of our staff are the key to delivering the service.

Turn to slide 4. Our service or our Sportsbook engine basically it consists of five components. The product is made available on any device, desktop, mobile, tablet and in retail. At the heart of everything we do is the user experience delivered to the players. This focus goes much deeper than just interfaces. This dictates how we work across the entire organization. An important part of our service delivery is to adhere to diverse regulatory requirements. We take care of the Sportsbook complexity for our operators to guarantee the most competitive product within the [ph] frames of regulation (00:02:28).

The production of odds is nowadays to high extent about building algorithms and automation. But in order to deliver a leading product, the sports experts are absolutely crucial. It's a cooperation of the man and machine that creates the most compelling offering with the right margins.

Closely connected to odds is risk management and customer intelligence with which we can assure optimal margins for the operators. Finally, as in any industry, the data aspect is becoming increasingly important. We leverage the data for two very distinct purposes; understanding the end user from a risk management perspective and from a user experience perspective.

Our quarterly highlights are shown on slide 5. In Q1, Kambi delivered strong numbers with 29% year-on-year revenue increase. More significantly, the operator turnover increased by 47%. It indicates that Kambi continued investment is well received by the end users of our service. The event calendar in the first quarter is very strong and an increase from Q4 is expected. This will continue for April and May. In June, however, we are expecting a quieter sporting calendar.

The UK market is becoming more important for Kambi, and the big racing events are starting to make an impact on our financial results. The Cheltenham Festival certainly boosted the operator turnover but the margin was negatively impacted. However, the major negative impact on the margin was results from very poor outcomes on few midweek evenings in March, featuring English football and Europa League. On a positive note, live-betting margin was very good through the quarter.

During the quarter, Kambi's first external customer, Paf, extended its commitment long-term. It's great to see our customers continuing to show confidence in our service. Kambi has recently obtained a UK license and improved the service towards the Italian market. I will expand on this later in the presentation. From a sales perspective, we are continuing strengthening our sales team and are currently in a number of ongoing discussions with potential prospects.

I will now hand over to what to David Kenyon who will talk you through the financial highlights, turning to slide 6.

David Kenyon

Chief Financial Officer, Kambi Group Plc

Thank you, Kristian. Good morning, everyone. First, I'm going to talk you through our headline results at the end of the first quarter. Then I will discuss the figures in some more detail. Revenue for Q1 2015 was just under €10 million, up 29% on the Q1 2014 figure. The operating profit for the quarter was €0.8 million at a margin of 8%. This compares to

an operating loss of € 0.1 million in Q1 2014.

After tax and interest costs, our Q1 results was a profit of €0.6 million, up from a loss of €0.3 million last year. These positive results fed through to our cash flow for the quarter. Excluding movements in working capital, the cash flow was plus €1 million for the quarter.

So, let's now look at the income in some more detail turning to slide 7. 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 sports betting service. The margin represents the combined profit margin made by the operators.

In Q1 2015, we see an all-time high level of turnover placed with the operators we support, up 47% from the same quarter last year. Looking further back, I'm pleased to note that operator turnover is up by 86% from Q1 2013. This is driven by the growth of our existing customers who we see are outperforming the market and to whom we offered more live events than in any previous quarter and the impact of new operators. Turnover from live betting increased significantly compared to previous quarters with tennis being the largest contributor to this growth. This quarter, [ph] the April operator (00:07:41) margin was around 7.1% which is below the long-term average of approximately 7.5%. The pre-match margin was impacted by some challenging results in key sporting events, in particular in football, and to a lesser extent the Cheltenham Festival. However, it is reassuring that the live-betting margin was above the long-term live-betting figure which validates the continuous improvements we make to our models and through our risk management tools and processes.

So, overall, whilst the operator turnover was up 47% from Q1 last year, operator margin was down by 14% from 8.2% to 7.1%. These movements in turnover and margin impacted [ph] the parts of our (00:08:29) 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 live events being provided. The net effect of all these was to increase our income by 29% compared to Q1 last year.

So, let's move on to the cash flow on slide 8. 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 January was €23.2 million. Working capital was broadly unchanged for the quarter overall. Capitalized development costs in the quarter were €1.2 million, which principally related to our system automation, frontend and retail projects. These costs were broadly in line with our amortization charge for the quarter. As a result of these transactions, our closing cash balance was €24.1 million.

So, now, let me pass you back to Kristian turning to slide 9.

Kristian Nylén

Chief Executive Officer, Kambi Group Plc

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 investment in regulatory compliance. First of all, Kambi received its full UK license in early April. It was necessary to acquire this license for our operators to continue to offering their service to UK residents.

More interesting for future growth is our effort in the Italian market. Improved conditions in Italy create new opportunities. There are two main developments that have made us put more focus on the Italian market. The Italian regulator has eased restrictions on what operators are allowed to offer. This has a significant impact especially on live betting. Therefore, we believe the need for more sophisticated solutions will be demanded by operators in the Italian market. Secondly, there is a proposal to change the gaming tax to be paid on gross gaming revenues instead of turnover. This will have a positive impact more both for operators and suppliers.

Kambi has made the necessary development to accommodate a significant upgrade of offering which should benefit Unibet who are already operating in Italy, as well as some of our other existing operators aiming to launch

sports betting in the Italian market. In parallel, Kambi has increased its sales focus for Italy and recently hired a native speaking sales representative, [indiscernible] (00:11:38).

To conclude the first quarter, we are very satisfied with the strong growth of the operating turnover from our existing customer base. We are continuing to develop our service and the market reach and we feel very positive about our ability to acquire new customers.

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 Bile Daar of Danske Bank. Please go ahead.

Bile Daar

Analyst, Danske Bank A/S (Sweden)

Q

Thank you. I was just wondering if you could elaborate a bit more on how the sort of the development for you guys – if it has changed versus previous quarters in terms of discussions with new potential partners. And also if there is any additional jurisdictions that you've been looking more closer into referring primary to Italy and Latin America?

Kristian Nylén

Chief Executive Officer, Kambi Group Plc

A

Thank you, Bile. On your first question, I mean, yeah, the whole time, I will say as I said before, for every quarter that is passing, I think we get a broader and better sales pipe. So, I see there's a very positive development. And yeah, hopefully, it will materialize soon enough.

On your second question, other market, I think at the moment, South America and now Italy is probably the two new things that we are looking to do more than before. But obviously, we're looking all the time for what's happening in the rest of the world when it comes to regulatory changes. So, it's an ongoing process.

Bile Daar

Analyst, Danske Bank A/S (Sweden)

Q

Thank you. And then in terms of Italy, how do you intend to sort of develop that product? Does that incur additional costs, or is that something that you're able to contain within sort of your current OpEx regime, so to say?

Kristian Nylén

Chief Executive Officer, Kambi Group Plc

A

Yeah. When it comes to the offering, I will say that it's no different. We already do what is necessary, more or less, for all dot.com markets. The difference in Italy was that the regulators restricted how much we were allowed to offer. So, it was more a regulatory problem and also a technical problem, but the development cost is pretty much taken already except for integrations with new customers.

Bile Daar

Analyst, Danske Bank A/S (Sweden)

Q

And in terms of your current customer portfolio besides Unibet, if I'm not mistaken, Paf and 888 [indiscernible] (00:15:02) Italian market, have they stated any time now for when they will go live with your new sort of Italian offering?

Kristian Nylén

Chief Executive Officer, Kambi Group Plc

A

I don't want to comment on what our operators' decisions are, but I think – yeah, the first step was for us to produce high-quality service for them to integrate to. So, I hope they are eager to do something as soon as this is done.

Bile Daar

Analyst, Danske Bank A/S (Sweden)

Q

Okay. And then one final question. Just wanted to get a better feeling for

the second quarter, if we think about the comp, obviously the World Cup contributed to your revenues in June. But on the other hand, April last year was a fairly weak month and I think [indiscernible] (00:15:58) from what Unibet is saying for April suggest that sports betting revenues have started off quite well. Is it anything particular we should be sort of take – give consideration in the special events that distorts the comps besides the World Cup?

Kristian Nylén

Chief Executive Officer, Kambi Group Plc

A

No. I would say this is a very regular quarter now without the World Cup. So, it's very much business as usual and no big events coming up at all.

Bile Daar

Analyst, Danske Bank A/S (Sweden)

Q

Okay. Thank you.

Kristian Nylén

Chief Executive Officer, Kambi Group Plc

A

Thank you.

Operator: [Operator Instructions] We have a question from Mrs. Jane Anscombe at Edison Investment Research. Please go ahead.

Jane Anscombe

Analyst, Edison Investment Research

Q

Yes. Morning. I just wanted to follow up on the questions about product development. And as you say, at the moment, it looks that your development spend is in line with the amortization. But you did mention projects on the front end and retail and just wondered if you could elaborate on your plans for the product development over the next year or so.

Kristian Nylén

Chief Executive Officer, Kambi Group Plc

A

Sure. As we already stated earlier, I mean the product development we are doing is we have full-time employees more or less, all of it. So, it will be, yeah, continuous. We will, we stated before, keep on expanding about the same fashion as we have done earlier quarters. But all these projects, the front and retail, that's contained within the normal business. And you can expect about the same situation as earlier quarters.

Jane Anscombe

Analyst, Edison Investment Research

Q

So, for live betting for example, I mean would you be needing to take live streams from different countries or different events if you're looking at expanding into new markets?

Kristian Nylén

Chief Executive Officer, Kambi Group Plc

A

Sorry. Can you repeat that again? I didn't hear.

Jane Anscombe

Analyst, Edison Investment Research

Q

Well, given the growth in your live betting, I was wondering whether you needed to continue to invest in content and products from different countries and different sports.

Kristian Nylén

Chief Executive Officer, Kambi Group Plc

A

Yes, we will have to invest slightly in more third-party suppliers and more importantly invest in more staff to keep on growing the live betting. But again, it's well within what we have planned and it's very much in line with what we have said before that we will continue to invest in the business in about the same pace as we have done before.

Jane Anscombe

Analyst, Edison Investment Research

Q

Thank you.

Kristian Nylén

Chief Executive Officer, Kambi Group Plc

A

Thank you.

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

Dawid Myslinski

Analyst, Redeye AB

Q

Yes. Hello, guys. Just a short question about the operator turnover index that you display. Would those bets that you display there, would they be affected by your operators' marketing mix or is it just the net of bonuses, et cetera?

Kristian Nylén

Chief Executive Officer, Kambi Group Plc

A

This is on gross gaming turnover you can say. So, it's not – we can't really consider marketing at all in these figures.

Dawid Myslinski

Analyst, Redeye AB

Q

Okay. So, if I understand this correctly, in periods where there is a lot of marketing, this will be higher, the index will be higher?

Kristian Nylén

Chief Executive Officer, Kambi Group Plc

A

Yeah. The marketing should support the turnover.

Dawid Myslinski

Analyst, Redeye AB

Q

Okay. Okay. Thank you. That's all for me.

Kristian Nylén

Chief Executive Officer, Kambi Group Plc

A

Thank you.

Operator: [Operator Instructions] There's no other questions at this time. Please go ahead, speakers.

Kristian Nylén

Chief Executive Officer, Kambi Group Plc

Okay. Thank you for your questions and for listening in. We are looking forward to update you again on the 5th of August when we release our second quarter report.

David Kenyon

Chief Financial Officer, Kambi Group Plc

Thank you.

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