

05-Aug-2015

Kambi Group Plc (KAMBI.SE)

Q2 2015 Earnings Call

CORPORATE PARTICIPANTS

Kristian Nylén

Chief Executive Officer, Kambi Group Plc

David Kenyon

Chief Financial Officer, Kambi Group Plc

MANAGEMENT DISCUSSION SECTION

Operator: Ladies and gentlemen, welcome to the Kambi Group Q2 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-session. Speakers, please begin.

Kristian Nylén

Chief Executive Officer, Kambi Group Plc

Good morning and welcome to Kambi's second quarter results presentation. I am Kristian Nylén, Chief Executive and also here is our CFO, David Kenyon. Turn to slide 2. I will go fill the highlights of the quarter and David will give the financial updates, and then I will talk about our new multi-channel betting sites. After the conclusion of the presentation, we will open up for questions.

But first, on slide 3, let me give you a brief introduction of Kambi. Kambi is a premium supplier of managed sports betting service, enabling our customers to compete at the very highest level. Our service, the Sportsbook engine handles all areas of our product for our operators – from odds and risk management to regulatory compliance and user experience.

This creates great economies of scale. The service can be adapted by the operator to fit into their unique strategy and brand. We'll get back to this later when we talk about Kambi initiatives. Today, there are [indiscernible] (00:01:30) 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 our operators. We are an organization of 400 people, the majority of the staff work with trading or IT, the creativity and dedication and experience of our staff are the key to delivering the service.

Turn to slide 4. In Q2, Kambi delivered strong numbers with a 30% year-on-year revenue increase, up more significantly, the operating turnover increased by 36%. The number may not seem too impressive, but remember this is the year without the major football tournament. It indicates that Kambi's continued investments are well-received by the end-users of the service.

In June, we announced that we are opening a new office in Bucharest. We expect the office to be up and running in September and will, at least for the foreseeable future, that will be staffed with traders. From a general market perspective, we have, of course, observed the recent news of ongoing M&A activities. Consolidation is a natural development of any industry just like facilitation and outsourcing. And we believe Kambi is well-positioned for the future. Kambi has a well-defined and focused journey around sports betting.

Turn to slide 5. During the quarter, Kambi find its first customer in Latin America. As you know, this is a market we started to focus on less than a year ago and we are very excited to starting Televisa. Televisa is the largest media company in the Spanish-speaking world. So, of course, there is a huge upside potential in this deal. Media companies are not always successful in the gaming industry, but with Televisa this is not a new business area. Televisa is already established with 18 casinos in Mexico under the brand PlayCity. They also have their own lottery business. Under this initial agreement, Kambi will provide to two of our casinos with an upgraded sports betting service. Of course, our aim is to eventually acquire an agreement for all PlayCity casinos as well as the online business as online is soon to be regulated in Mexico.

Turn to slide 6. Looking forward to Q3, it is traditionally from a sporting calendar perspective, the worst quarter during a two-year cycle, but we are optimistic that we can continue seeing good turnover due to the excellent brand of our offering and trading has started on a positive note. Also in Q3, Kambi has come to an agreement with two of its customers, Iveribet and Juegging to end the partnership. The financial impact should be very limited.

From a sales perspective, we are continuing strength in the sales team and I reiterate what we said three months ago, we are currently in a number of ongoing discussions with potential prospects and we are viewing the near future as promising.

I will now hand it over to Dave Kenyon who will talk to you about the financial highlights, starting with slide 7.

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 second quarter, and I'll look at the figures in some more detail. Revenue for Q2 2015 was €10.7 million, up 13% on the Q2 2014 figure. This brings the revenue for the first half-year to €20.7 million, up 20% from last year. The operating profit for the quarter was €0.8 million, that's a margin of 8%. This is in-line with last year.

For the first half-year, the operating profit is €1.6 million, that's a margin of 8% compared to €0.7 million in 2014. After tax and interest costs, our Q2 result was a profit of €0.5 million, up from €0.4 million last year. The profit after tax for the first half-year 2015 was €1.1 million whereas we broke even in the first half of 2014. Our cash flow excluding movements in working capital for the quarter was €0.2 million, compared to €1 million last year. And for the first half-year, the cash flow was €1.2 million compared to €1 million last year.

So, let's now look at income into more detail, turning to slide 8. 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 Q2 2015, we've seen all-time high level of turnover placed with the operators we support, up 36% from the same quarter last year. This is particularly pleasing given the tough comparators as Q2 2014 contained the majority of the matches in the football World Cup. We have driven huge growth in the turnover of our customers who we see outperforming the market.

In terms of sports, football and particularly tennis have been the main growth drivers with tennis boosted by an increased event and markets offering. With the growth of Kambi operated in the UK market, horseracing and cricket have also seen significant increases. This quarter, the overall operating margin was around 6.7%. We set

the payback percentages on different sports and leagues in order to maximize the profits for our operators. We have increased the payback percentages on certain key leagues and events across football, tennis and ice hockey. These higher levels of paybacks to players continue to provide operators with competitive odds and maximize their return.

So, overall whilst the operating turnover was up 36% from Q2 last year, operating margin was down by 7% from 7.2% to 6.7%. These movements in turnover and margin impacted the [indiscernible] (00:08:52) 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.

This is worth noting that Q2's revenue was also impacted compared to last year by the deduction of UK betting duty for our operators licensed in the UK. Also, due to the growth of our operators, some have achieved certain volume-related discounts and lower commission tiers at an earlier stage than in 2014. The net effect of all these was to increase our income by 13% compared to Q2 last year.

So, let's move on to the cash flow on slide 9. Setup from this slide are the major components, which impacted our cash position during the quarter. Our opening cash balance on the 1st of April was €24.1 million, working capital for the quarter was impacted by the timing of such an annual volume-related discounts which had previously reduced the debtors' position and was settled during Q2. The impact of these discounts is a specific recurring cash flow pattern that will typically impact Q2 only. Capitalized development costs in the quarter were €1.7 million, which principally related to our system automation, frontend and retail projects. These costs were €0.4 million higher than the amortization charge for the quarter. We also made our annual interest payments on our debts during Q2. As a result of these transactions, our closing cash balance was €22.5 million.

So, now let me pass you back to Kristian turning to slide 10.

Kristian Nylén

Chief Executive Officer, Kambi Group Plc

Thank you, David. Each quarter, our intention is to give a deeper insight into specific area of our service. Today, I will focus on our betting clients. For the last four years, we have been building on our mobile solution and today it delivers one of the leading user experiences.

The mobile client has always been intended to be the foundation for a multichannel platform for all devices through a responsive design technology. The advantages are clear. We can deliver the same user experience to the players no matter what device they're using and at the same time as we significantly can increase the efficiency in our front and development by only building one betting client. This project is now coming to an end and we will be rolling it out across the network here in Q3.

During the transition, we are focused on two areas: First and foremost, to create a leading, relevant, personal and exciting user experience. User experience is one of the core competitive elements in sports betting. More than anything else, this is what creates retention among the players. In our development of a new client, we have applied a data-driven approach to excel at this. We have to, a large extent, let the numbers from the hundreds of thousands of end-users on our network guide us in how to evolve the experience.

The second focus area was to enable our operators with greater flexibility and to allow for different brands with different strategies to themselves innovate and differentiate using the Kambi clients. With the new clients, we believe we have achieved just that, and operators will, far beyond the outlook and feel, be able to alter the experience and create the unique proposition, while at the same time relying on Kambi to take care of all of the

more costly and resource-intensive parts of the product. This is a sweet spot between efficiency on the one hand and differentiation on the other hand that Kambi has always strived for.

Before opening for Q&A, to conclude the second quarter, we are very satisfied with a strong growth of the operated turnover from our existing customer base. We are continuing to develop our service and 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 [indiscernible] (00:14:06), please go ahead.

Q

Thank you. Hi, guys. Just two quick questions. First, regarding the kind of the higher paybacks to players, how are you taking that kind of cost yourself or are the operators taking their fair share or how does that work for you in the P&L? It obviously affects your margins.

Kristian Nylén

Chief Executive Officer, Kambi Group Plc

A

Yes. Hi, [ph] Stefan (00:14:30). I wouldn't say it's the cost in them. I mean that is not being tarnished in any way. We expect the turnover to go up so that the gross gaming revenues actually become more than it was before. And yeah, in the end, we and the operator, we share gaming cost over profit of this since – mainly our revenues are based on the revenue share with operator.

Q

No, I guess that obviously it makes your offering even more competitive. It's just kind of – as you know, Unibet report today I think the variation in your margins is higher than theirs. I know that they have some other revenues doesn't come, that they're doing without you but still the data they mentioned, that's why I asked that if this is more investments you're taking rather than your customers?

Kristian Nylén

Chief Executive Officer, Kambi Group Plc

A

I have no – again, I mean it's still fully on a revenue share basis. And I reiterate that I don't believe this would be cost. We addressed this because we believe that maybe our long-term margin will be slightly lower than we have communicated before.

Q

Okay. That makes sense. Also could you just comment a little about South America, Mexico in particular, but also I think the discussions in Brazil and what do you see how the kind of regulatory terms that makes you see that you probably can get more customers there?

Kristian Nylén

Chief Executive Officer, Kambi Group Plc

A

Yeah. I mean, things are starting to move in Latin America quite a lot at the moment. And, of course, we will try to make opportunities out of that. Mexico is the country we believe will be the leader in this race when it comes to regulation. I think there will be other countries that will be ahead of Brazil, but obviously Brazil is the largest and most important market. And I think things are starting to move there, but I heard years ago as well, about that they wanted to get ready before the football World Cup, and that didn't happen so I wouldn't say but it's a sure thing that Brazil will be regulated within one or two years. But it's definitely moving in the right direction.

Q

Okay. Good. Then just finally, maybe I missed it earlier in the call but regarding your operating expenses, I mean has there been any kind of investment peak now and launching the new platform or the new interface and – or is this the kind of cost growth that we should be expecting the one we're seeing here in Q2?

David Kenyon

Chief Financial Officer, Kambi Group Plc

A

Hi, it's David and I there have some – I guess some expenditure which is specific to Q2. We're thinking of a – we launched – announced the launched a request of it, so there's been some initial cost there. But I mean, overall, we're spending this cost. You see the head count is increasing. That's been to drive – sorry, there is a nasty noise. Okay, it's gone quiet.

Yeah, I mean really the main driver is the head count growth which we've done to be able to drive the number of live events for our large customers and hopefully can drive that turnover increase as well.

Q

Okay. That's great. I think I heard most of that.

David Kenyon

Chief Financial Officer, Kambi Group Plc

A

Can you hear that? I'm sorry about the noise [indiscernible] (00:18:30).

Q

Thank you, David and Kristian.

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

Kristian Nylén

Chief Executive Officer, Kambi Group Plc

Okay. No more questions?

Operator: No more questions.

Kristian Nylén

Chief Executive Officer, Kambi Group Plc

Okay, thank you for listening in. We look forward to updating you on the 4th of November when we release our third quarter report. Thank you.

Disclaimer

The information herein is based on sources we believe to be reliable but is not guaranteed by us and does not purport to be a complete or error-free statement or summary of the available data. As such, we do not warrant, endorse or guarantee the completeness, accuracy, integrity, or timeliness of the information. You must evaluate, and bear all risks associated with, the use of any information provided hereunder, including any reliance on the accuracy, completeness, safety or usefulness of such information. This information is not intended to be used as the primary basis of investment decisions. It should not be construed as advice designed to meet the particular investment needs of any investor. This report is published solely for information purposes, and is not to be construed as financial or other advice or as an offer to sell or the solicitation of an offer to buy any security in any state where such an offer or solicitation would be illegal. Any information expressed herein on this date is subject to change without notice. Any opinions or assertions contained in this information do not represent the opinions or beliefs of FactSet CallStreet, LLC. FactSet CallStreet, LLC, or one or more of its employees, including the writer of this report, may have a position in any of the securities discussed herein.

THE INFORMATION PROVIDED TO YOU HEREUNDER IS PROVIDED "AS IS," AND TO THE MAXIMUM EXTENT PERMITTED BY APPLICABLE LAW, FactSet CallStreet, LLC AND ITS LICENSORS, BUSINESS ASSOCIATES AND SUPPLIERS DISCLAIM ALL WARRANTIES WITH RESPECT TO THE SAME, EXPRESS, IMPLIED AND STATUTORY, INCLUDING WITHOUT LIMITATION ANY IMPLIED WARRANTIES OF MERCHANTABILITY, FITNESS FOR A PARTICULAR PURPOSE, ACCURACY, COMPLETENESS, AND NON-INFRINGEMENT. TO THE MAXIMUM EXTENT PERMITTED BY APPLICABLE LAW, NEITHER FACTSET CALLSTREET, LLC NOR ITS OFFICERS, MEMBERS, DIRECTORS, PARTNERS, AFFILIATES, BUSINESS ASSOCIATES, LICENSORS OR SUPPLIERS WILL BE LIABLE FOR ANY INDIRECT, INCIDENTAL, SPECIAL, CONSEQUENTIAL OR PUNITIVE DAMAGES, INCLUDING WITHOUT LIMITATION DAMAGES FOR LOST PROFITS OR REVENUES, GOODWILL, WORK STOPPAGE, SECURITY BREACHES, VIRUSES, COMPUTER FAILURE OR MALFUNCTION, USE, DATA OR OTHER INTANGIBLE LOSSES OR COMMERCIAL DAMAGES, EVEN IF ANY OF SUCH PARTIES IS ADVISED OF THE POSSIBILITY OF SUCH LOSSES, ARISING UNDER OR IN CONNECTION WITH THE INFORMATION PROVIDED HEREIN OR ANY OTHER SUBJECT MATTER HEREOF.

The contents and appearance of this report are Copyrighted FactSet CallStreet, LLC 2019 CallStreet and FactSet CallStreet, LLC are trademarks and service marks of FactSet CallStreet, LLC. All other trademarks mentioned are trademarks of their respective companies. All rights reserved.