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Kambi Group Plc (KAMBI.SE)

Q3 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, Keel Capital

Sharish Aziz

Analyst, Danske Bank A/S (Sweden)

MANAGEMENT DISCUSSION SECTION

Operator: Ladies and gentlemen, welcome to the Kambi Q3 Report Financial Statements for the Nine Months to September 30. 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 a listen-only mode. And afterwards, there will be a question-and-answer session. Speaker, please begin.

Kristian Nylén

Chief Executive Officer, Kambi Group Plc

Good morning and welcome to Kambi's third quarter results presentation. I am Kristian Nylén, Chief Executive. And also here is our CFO, David Kenyon. Please turn to slide 2.

I will refer to the highlights of the quarter. David will give a financial update, and then I will talk about our differentiation initiative. After the conclusion of our presentation, we will open up for questions.

But, first, on slide 3, let me give you a brief introduction to Kambi. Kambi is a premium supplier of managed sports betting services, enabling our customers to compete at the very highest level. Our service, the Sportsbook engine, handles all areas of a product for our operators from all the service management to regulatory compliance and user experience. This creates great economies of scale. The service can be adapted by the operators to fit into the unique [indiscernible] (00:01:25) brand.

Today, there are 10 successful customers on the Kambi network that are outperforming the market in partnership with Kambi. Kambi has an in-house developed technical platform that for scalability agility is evolving fast while also guaranteeing stability to the operators. We are an organization of 433 people. The majority of staff works with either trading or IT. The creativity, dedication, experience of our staff are key to delivering the service.

Turn to slide 4. Q3 was by far Kambi's best quarter in our short history as an independent company. The strong result is entirely based on exceptional organic growth of our existing customer base. Operator turnover is up 47% year-on-year compared to Q3 last year, which had the latter part of the World Cup. Kambi's revenues are up 45% year-on-year and our scalable model is starting to prove itself as our operating margin for the quarter was 19%, which resulted in an EBIT of €2.5 million.

It's looking very promising from a sales perspective. Sales cycles are long in this industry, but I would be very disappointed if we had not announced a new customer before the quarter report next time. One operational note, we are up and running with our Bucharest office and have started trading with a small team, which we intend to grow as we increase our offering.

Turn to slide 5. Looking forward at Q4, it's traditionally a very strong quarter from a sporting calendar perspective and trading has started solidly. In the coming months, we expect more customers besides Unibet to start operating in Italian market supported by Kambi's upgraded service. 888 is already established in Italy with a strong presence in the casino vertical. This market should be a valuable contribution to future revenues at Kambi.

As an indicator of our strong customer list, four of our operators were recognized by eGaming Review in late October when we were named in the latest eGR Power 50. Both Unibet and 888 were in the top 10, while PAF and the 32Red were also on the list.

I will now handle over to David Kenyon who will talk you through the financial highlights starting 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 the headlines of our Q3 financial results, then look at the figures in some more detail. Revenue for Q3 2015 was €12.8 million, up 35% on the Q3 2014 figure. This brings the revenue for the first three quarters to €33.5 million, up 25% from last year. The operating profit for the quarter was €2.5 million with margin of 19%, up from €0.9 million last year. For the year-to-date, the operating profit is €4.1 million, that's a margin of 12%, compared to €1.6 million in 2014.

After-tax and interest costs, our Q3 result was a profit of €2.1 million, up from €0.7 million last year. The profit after-tax for the first three quarters this year is €3.3 million, up from €0.7 million for the same period in 2014. Our cash flow, excluding movements in working capital for the quarter, was €2.2 million compared to €1.2 million last year. For the first three quarters, the cash flow is €3.4 million compared to €2.2 million last year.

In summary, we have continued to drive exceptional growth for the operators we work with. This has driven our revenue to its highest quarterly level and fed through to our operating margin and profit, demonstrating the scalability of the business model.

So let's now look at 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's sports betting service. The margin represents the combined profit margin made by the operators.

In Q3 2015, we see a high level of turnover placed with the operators we support, in line with the last quarter and up 47% from the same quarter last year. This was particularly pleasing given the tough comparative as Q3 2014 contained the 10 final matches in the Football World Cup and there was no tournament of such magnitude this year.

In terms of sports, football and particularly tennis have been the main growth drivers, with tennis boosted by an increased event and market offering. With the growth of Kambi's operators in the UK market, horseracing has also seen a significant increase. This quarter, the overall operator margin was around 7.6%. This is up from recent quarters, which have been around the 7% mark.

These movements in turnover and margin impacted the parts of our revenue, which is commissioned 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 35% compared to Q3 last year.

So, let's move onto 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 July was €22.5 million. Operating profit for the quarter was €2.5 million. Trade receivables increased by €0.4 million during the quarter, reflecting the increase in revenue in August and September. Capitalized development costs were €1.5 million. These costs were €0.2 million higher than the amortization charge for the quarter. The net impact of all these was to increase the cash balance by €1.8 million in the quarter, giving a closing cash balance of €24.2 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 differentiation initiative. In the majority of all the work and investments Kambi is doing, there is a little need for differentiation. For fundamental elements such as system stability, regulatory compliance, trading algorithms and risk management, there is no value in differentiation. It just has to work exceptionally well. We think of it as the bottom of the user experience iceberg.

There are, however, areas where differentiation can be important. These are the areas closest to end users and the operators' brand, primarily the frontend and the pricing and rewards. Over the past year, Kambi has evolved its solution to meet these requirements.

Please turn to slide 10. For a very flexible frontend solution, Kambi gives the operators the possibility to express their brand in a very efficient manner. Added to this, the technology now allows the operators themselves to drive innovation and create unique product propositions on top of Kambi's platform.

With very limited resources on the operators' side, completely different experiences can be created between operators, but also even between individual players. We are excited to see what our team, together with our operators, will come up with in this area going forward.

On the slide in front of you is a few examples of a real client that our designers have created in just a couple of days to exemplify how easily differentiation now is created.

As the natural next step, Kambi is now also starting to build a tool for our operators to take some control over the pricing. This will enable them to differentiate the odds on their website to promote certain events for marketing purposes. We have finally solved how to build a fully scalable system, whereby we can still manage the operators' risk.

Turn to slide 11. To summarize the quarter, this is by far the strongest quarter in the Kambi history. We see exceptional performances across the whole customer base. The substantial increase in our operating margin demonstrates our scalable business model and we are currently in a number of advanced discussions with various prospects.

Before opening for Q&A, David and I would like to thank you for your interest in Kambi. And now, we'll open it up for questions. Thank you.

QUESTION AND ANSWER SECTION

Operator: Thank you. [Operator Instructions] And we have our first question coming from Bile Daar from Keel Capital. Please go ahead. Your line is now open.

Bile Daar

Analyst, Keel Capital

Q

Thank you. Kristian, I had one question, just trying to understand how you're sort of not resetting, but the higher payback that you started promoting throughout your customer base in late Q2, how that has played out? And from a risk management point of view, if you feel that you've sort of absorbed that changed already in Q3.

Kristian Nylén

Chief Executive Officer, Kambi Group Plc

A

Hi, Bile. It's still a little bit too early to say how well it has played out. I mean the result has been very, very favorable on Premier League so far this season. But so far, I would say all effects are very, very positive. We see increased turnover. As you can see, we are 47% across our customer base. And I think it's not only on Premier League we see increased turnover, thanks to its increase. So, I'm very positive.

So, on the trading side, I think, yeah, we have very solid risk management and we can certainly handle managing risk even on 98% payback.

Bile Daar

Analyst, Keel Capital

Q

Okay. Thanks. And then, a follow-up on what you mentioned about the initiatives that you've taken in terms of investing into the frontend and that's sort of also a payback differentiation. What's the timing of that? And when do you believe that your first clients will be able to use it?

Kristian Nylén

Chief Executive Officer, Kambi Group Plc

A

When it comes to the frontend, that's already available. So, now, it's, yes, the question on when our customers believe that it's a good timing for them to switch from Flash to HTML5 on the web part of it. On mobile, everybody is already using the HTML5 client. So we have a few clients that will – have already made the partial switch, but nobody has gone full blown on HTML5 on web yet.

Bile Daar

Analyst, Keel Capital

Q

And in terms of [ph] alter (15:24) differentiation, how far into the future is that?

Kristian Nylén

Chief Executive Officer, Kambi Group Plc

A

Yeah. I can't really answer that question at the moment. We have, yes, started about the initiatives. So I have to get back to you on that, but I don't believe it's – yeah, it would – yeah, sometime during next year about this as good as I can answer at this point.

Bile Daar

Analyst, Keel Capital

Q

And then, a final question and I'm not sure if you're going to answer it though. But if we sort of exclude your largest client from the P&L, I mean the remaining revenue, do that sort of grow faster than Unibet? And just to get a sense for the growth across your customer base.

Kristian Nylén

Chief Executive Officer, Kambi Group Plc

A

Yes. It goes slightly above the Unibet, but Unibet goes quite quick as you know from earlier today as well, but we [indiscernible] (00:16:25) slightly quicker.

Bile Daar

Analyst, Keel Capital

Q

Okay. Thank you.

Operator: Thank you. [Operator Instructions] And our next question comes from Sharish Aziz from Danske Bank. Please go ahead. Your line is now open.

Sharish Aziz

Analyst, Danske Bank A/S (Sweden)

Q

Thank you. Hi, Kristian. I have a question regarding Grupo Televisa in Mexico. In which quarter can we expect any monetary effect from that client?

Kristian Nylén

Chief Executive Officer, Kambi Group Plc

A

Hi, Sharish. In a very small scale, I think you can expect some income from it already in Q4, but it will be very insignificant in the beginning, we were only two casinos. So, as we have communicated the whole time, the business case with Televisa is to also get their online business. And at the moment, we will have a proof of concept for two of our very recent casinos.

Sharish Aziz

Analyst, Danske Bank A/S (Sweden)

Q

And just a follow-up on that, how is the development of getting the online business going ahead?

Kristian Nylén

Chief Executive Officer, Kambi Group Plc

A

I can't answer that question unfortunately. When I can, I will.

Sharish Aziz

Analyst, Danske Bank A/S (Sweden)

Q

Okay. Perfect. And just one last question, can we anticipate one more signed during Q4 – a new signing during Q4?

Kristian Nylén

Chief Executive Officer, Kambi Group Plc

A

Yeah. As I said earlier, yeah, I would personally be disappointed if that wouldn't happen.

Sharish Aziz

Analyst, Danske Bank A/S (Sweden)

Q

Will it be more than one or just one customer?

Kristian Nylén

Chief Executive Officer, Kambi Group Plc

A

We'll see about that. I can't answer that.

Sharish Aziz

Analyst, Danske Bank A/S (Sweden)

Q

Okay. Thank you, Kristian.

Kristian Nylén

Chief Executive Officer, Kambi Group Plc

A

Thank you.

Operator: Thank you. [Operator Instructions] As there are no further questions at this time, I hand the conference back to you speakers.

Kristian Nylén

Chief Executive Officer, Kambi Group Plc

Okay. Thank you for the questions and for listening in. We look forward to updating you on February 10 when we release our Q4 report. Thank you.

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