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# Kambi Group Plc (KAMBI.SE)

Q4 2015 Earnings Call

## CORPORATE PARTICIPANTS

Kristian Nylén

*Chief Executive Officer, Kambi Group Plc*

David Kenyon

*Chief Financial Officer, Kambi Group Plc*

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## OTHER PARTICIPANTS

Anders Hillerborg

*Analyst, ABG Sundal Collier AB*

Jane Anscombe

*Analyst, Edison Investment Research Ltd.*

Dawid Myslinski

*Analyst, Redeye AB*

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## MANAGEMENT DISCUSSION SECTION

**Operator:** Ladies and gentlemen, welcome to the Kambi Group Q4 Report. Today, I am 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. Speakers, please begin.

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Kristian Nylén

*Chief Executive Officer, Kambi Group Plc*

Good morning and welcome to Kambi's fourth quarter result presentation. I am Kristian Nylén, Chief Executive. Alongside me is our CFO, David Kenyon. I'm a bit under the weather today, so I've asked David to present the results, but I will be here to answer questions after presentations. Over to you, David.

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David Kenyon

*Chief Financial Officer, Kambi Group Plc*

Thank you, Kristian. Good morning, everyone. We'll find the outline of today's presentation on slide 2. I'll start with the highlights of the quarter then present the financial results. I'll also talk about the two recent customer signings we've made. At the end of the presentation, we'll open up for question.

Let me start by giving you a brief introduction of Kambi on slide 3. Kambi is a premium turnkey sports betting service of the multiple channels, such as Web, mobile and retail terminals. Our service is managed from an award-winning, in-house developed platform that's been continuously developed over the last decade.

The platform, together with our 440 highly-skilled staff, forms the foundation of our service. Our business model is highly scalable as we do not expect to incur significant additional costs when we take on new operators. We currently offer our fixed odd service to 10 operators, most of whom are outperforming the market.

So let's look at the quarterly highlights on slide 4. This quarter, we saw very strong levels of turnover for our operators, up 64% on Q4 last year. This helped drive our best ever quarter across all our financial measures, including revenue, operating margin and cash flow. Over the past month, we're delighted to announce we will start to work with two new operators with strong brands, LeoVegas and The Rank Group. And from a technical perspective, we started the roll-out of our new HTML5 client to our operators, which will enhance their ability to differentiate themselves and be innovative without Sportsbook.

Let's look in more detail at our financial performance on slide 5. Our financial results continue to improve during Q4. Revenue for Q4 2015 was €14.2 million, up 53% on the Q4 2014 figure. This was driven by a sharp increase in the turnover of our operators, which I will look at in more detail later. This brings the revenue for the full year to €47.7 million, up 32% from last year.

Operating profit for the quarter was €3.3 million at the margin of 23%, up from €0.6 million last year. And for the full year, the operating profit is €7.4 million at the margin of 16% compared to €2.2 million in 2014. Our cash flow excluding movements in working capital for the quarter was €2.8 million and €6.2 million for the full year. The net cash position at the year-end was €20.3 million, showing our balance sheet has been in a very healthy position. In summary, we've continued to drive outstanding growth with the operators we work with. This has driven our revenue to its highest quarterly level and shows now operating margin and profit.

So, let's now look at the income in some more detail, turning to slide 6. 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 Q4 2015, we see a very high level of turnover placed to the operators we support, up 27% from Q3 and up 64% from Q4 2014. We continue to drive growth in the turnover of our operators who we see outperforming the market.

In terms of sports, football and tennis have been the main growth drivers, with both significantly boosted by an increased number of live events being offered. This quarter, the overall operating margin was around 7%, in line with the long-term average.

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 comprised of 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 53% compared to Q4 last year.

So, let me now talk about the development of our revenue and operating margin on slide 7. Here, we see the evolution of Kambi's financial performance over the last two years. Back in Q1 2014, we had revenue of €7.7 million and a small operating loss. From there, revenues have developed strongly, driven by the performance of our operators.

At the same time, whilst costs have increased in line with our expanding delivery and development capacity, we have done so at a much lower rate and in a controlled way. The result is that we have demonstrated the scalability of the business model with the operating margin increasing each quarter to its current level of 23%.

Let's look at the new operators we will work with, turning to slide 8. LeoVegas is a strong brand that has experienced success in the Scandinavian and UK markets with its mobile casino offering. Using Kambi service,

they will launch a Sportsbook for the first time, which will complement their existing casino offering. The go live target is ahead of Euro 2016 and we look forward to contributing to that success in the years ahead.

We also have recently announced a new deal with The Rank Group on slide 9. The Rank Group Plc is a large retail gaming group in the UK and is a FTSE 250 company. They will use our service to offer Sportsbook for the first time on their grosvenorcasinos.com brand. Again, it will complement their existing casino offering. And they are also aiming to launch before the Euro 2016 tournament. And we look forward to growing their sports betting business in the coming years.

Let me summarize our key points on slide 10. We are delighted to continue to deliver strong financial results with our best ever quarter in terms of revenue, margin, profit and cash flow. From a technical perspective, we're rolling out an improved version of our service which will enable our operators to fulfill their demands for differentiation and innovation across all the channels. The announcements in recent weeks of our two new deals with renowned operators should continue to support our development.

Over the past years, we've seen a significant shift towards B2B outsourcing model in sports betting. This is positive news for Kambi as we see the sports betting market following the same outsourcing trend which can be seen in virtually any industry at some point. With an outsourced model, operators will be able to innovate within their Sportsbooks by personalizing and differentiating their offerings, and they can focus solely on the marketing of their brands. Kambi is well-placed to capitalize further on this trend.

I'd like to thank you for your interest in Kambi. And now, we open up for questions.

## QUESTION AND ANSWER SECTION

**Operator:** [Operator Instructions] We have a question from Anders Hillerborg from ABG Sundal Collier. Please go ahead, sir.

Anders Hillerborg  
*Analyst, ABG Sundal Collier AB*

Q

Hi, guys. I got two questions for you today. First, looking on the OpEx development for 2016, could you give some flavor on that? The Q4 growth rate of course was 25% and the average for 2015 was 21%. Is this roughly where we should expect the growth to be in 2016 as well?

David Kenyon  
*Chief Financial Officer, Kambi Group Plc*

A

[indiscernible] (00:09:19) I think yes. I mean I think we're going to continue to grow our head count. We need to do that both to expand our service in terms of number of live event offering, so that means growing the number of operators, but also our development capacity. We have a lot of projects ongoing and got a lot of work we need to do to keep improving. So we are going to continue to recruit on the IT side as well. So, I think this is probably a fairly sensible and controlled way to grow the cost.

Anders Hillerborg  
*Analyst, ABG Sundal Collier AB*

Q

Okay. Thanks. And then, looking on the start to Q1 so far. You haven't commented on that. But we know that both [ph] bets and (00:09:54) Unibet are that the sports sales have been maybe slightly unfortunate because the

Sportsbook margin have been potentially slightly weaker than last year, but the underlying activity has been really good for these guys. So is the pattern you see as well that the margin is potentially slight lower year-on-year but the online activity remains very strong?

Kristian Nylén

*Chief Executive Officer, Kambi Group Plc*

A

We haven't commented on it. I mean we have slightly different market than Unibet for, yeah, for the total network. Of course, in general, we have very much of the same parts of Unibet. So, yeah. You will see the same parts and process with Unibet.

Anders Hillerborg

*Analyst, ABG Sundal Collier AB*

Q

Okay. Great. Thanks.

**Operator:** We have a question from Dawid Myslinski from Redeye. Please go ahead, sir. Your line is open.

Dawid Myslinski

*Analyst, Redeye AB*

Q

Yes. Hello. David here. I have two questions. One is concerning the turnover growth year-on-year, 64%. Is that organic or is that including some new customers along the way?

Kristian Nylén

*Chief Executive Officer, Kambi Group Plc*

A

Yes. I would say, the vast majority is organic, but you have two new customers during mid-2014, yeah, and 32 reps. But the main part of it is organic.

Dawid Myslinski

*Analyst, Redeye AB*

Q

Okay. Good. And LeoVegas, they were kind of groundbreaking when they launched their smartphone casino. And you also emphasized in your presentation the possibility for your customers to customize their front-end offering. Have you heard – I mean, I understand you don't want to go into this in details but have you heard about are they going to – do they have some fresh ideas for their Sportsbook or was it just to have a kind of on par with the best Sportsbooks now currently available on mobile or do they have any fresh ideas? What would you say about that?

Kristian Nylén

*Chief Executive Officer, Kambi Group Plc*

A

I can't really comment on that, but that's for LeoVegas to comment on, I would say.

Dawid Myslinski

*Analyst, Redeye AB*

Q

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

Kristian Nylén

*Chief Executive Officer, Kambi Group Plc*

A

Thank you.

**Operator:** We have a question from Jane Anscombe from Edison Investment Group. Please go ahead, madam. Your line is open.

Jane Anscombe

*Analyst, Edison Investment Research Ltd.*

Q

Yes. Morning too from me as well, please. Firstly, you've talked about the structural shift to outsourcing sports betting. And despite being more visible with sports betting providers such as SBTech, and I wonder if you could say a little bit about the competitive environment that you see at the moment and whether you see yourself as particularly strong in particular geographies.

Kristian Nylén

*Chief Executive Officer, Kambi Group Plc*

A

Yes. I mean, of course, the competition is growing and I think that's both good and bad, of course. The bad part is that it's, yeah, tougher to win deals, of course. The good part is that I believe we have been the only alternative in many cases and that is probably scaring companies doing it in-house of outsourcing. So, for me it's actually a positive with a broader [indiscernible] (00:13:40) of competitors. What was the second part?

David Kenyon

*Chief Financial Officer, Kambi Group Plc*

A

Differentiate.

Kristian Nylén

*Chief Executive Officer, Kambi Group Plc*

A

Yeah. No. No. Yeah. The geographies. Yeah. I would say we are not very strong in Asia and we're not focusing on that. So, where we are strong is in Europe and that, I would say, it's very similar for South or the Latin America and other areas. But Asia is a little bit different and it's not our focus at the moment.

Jane Anscombe

*Analyst, Edison Investment Research Ltd.*

Q

And my second question is on the operator margin, which as you say average is sort of 7%. Do you think that a combination of the roll-out of the HTML5 client and the mix of operators going forward, perhaps with more recreational players, means that there's any likely shift in – stocks will shift in the average margin obtained by your operators?

Kristian Nylén

*Chief Executive Officer, Kambi Group Plc*

A

No, I don't think the HTML5 client will have any impact on the margin. What will have an impact possibly in the future is what we talked about last time. We have – our efforts in price differentiation. But that's too early to talk about at the moment.

Jane Anscombe

*Analyst, Edison Investment Research Ltd.*

Q

Thank you.

David Kenyon

*Chief Financial Officer, Kambi Group Plc*

A

Thank you.

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**Operator:** [Operator Instructions] There are no further questions at this time. Please go ahead, speakers.

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David Kenyon

*Chief Financial Officer, Kambi Group Plc*

Okay. Thank you very much for your questions and for listening in. We look forward to updating you on the 27th of April, when we will publish our First Quarter Report for 2016.

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