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# Kambi Group Plc (KAMBI.SE)

Q1 2016 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*

Dawid Myslinski

*Analyst, Redeye AB*

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## MANAGEMENT DISCUSSION SECTION

**Operator:** Ladies and gentlemen, welcome to the Kambi Group Conference Call. Today, I'm pleased to present Kristian Nylén. For the first part of this call all participants will be in a listen-only mode. And afterwards, there'll be a question-and-answer session.

Speakers, please [audio gap] (00:00:16-00:00:21).

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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 joining me is our CFO, David Kenyon. Please turn to slide 2. I will go through the highlights of the quarter, David will give a financial update and then I will talk about our new signings and the recent rollout of our HTML5.

After conclusion of the presentation, we will open up for question. But, first on slide 3, let me give you a brief introduction to Kambi. Kambi is a premium turnkey sports betting service offered on multiple channels such as Web, mobile and retail. Our service is managed from an in-house developed platform that has been continued to develop over the last decade.

The platform together with our 467 highly skilled staff holds the foundation of our service. Our service encompass a broad offering from front-end user interface through to odds compiling, customer intelligence and risk management. We currently offer our services to 12 operators most of whom are outperforming the market.

So let's look at the quarterly highlights on slide 4. This quarter, the quality of our service continued to support the rapid growth of our operators and we saw their turnover increased by 50% which led to 33% growth in Kambi's revenues.

As mentioned in our Q4 report, Kambi signed two new operators, LeoVegas and Rank Group, during Q1. Building on this momentum, in April, we added a third operator in Mr Green, to our already impressive portfolio. I will expand on this deal towards the end of our presentation. All three of these operators featured on the 2015 edition of eGR Power 50.

The new HTML5 client is now available to all our operators in all channels. This will offer a more personalized and differentiated front-end experience for our operators. I will give you a more detailed example later in the presentation.

From an operation perspective, three of our operators are now live in Italy and we are actively working on rolling out more sports to enhance the product further in Italian market. During the quarter, Kambi also had a mutual agreement with a Spanish operator, Premier Apuestas, to terminate its contract. This will have a limited effect on the Kambi revenues.

I will now hand over to David Kenyon who will talk you through the financial highlights, turning to slide 5.

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## David Kenyon

*Chief Financial Officer, Kambi Group Plc*

Thank you, Kristian. Good morning, everyone. Revenue for Q1 2016 is €13.3 million, up 33% on the Q1 2015 figure. This was driven by a significant increase in the turnover of our operators, which I will look at in more detail later. Operating profit for the quarter was €2 million at a margin of 15%, up from €0.8 million last year. Our cash flow excluding movements in working capital for the quarter was €1.4 million. The net cash position at the end of March was €21.7 million. In summary, we've continued to drive outstanding growth for the operators we work with. This in turn has underpinned our financial performance.

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 Q1, we see a high level of turnover placed through the operators we support, up 50% from Q1 2015. In Q4, we saw a step change in operator turnover and we are delighted that we've been able to build on this in Q1.

This quarter, the overall operator margin was around 6.7%, slightly below the long-term average. We've seen a large number of favorites winning the Champions League in particular. These movements in turnover and margin impacted the [indiscernible] (00:05:20) revenue which is commission based on profits generated for our operators.

Our operator contracts include certain tiers of commission rates which can vary as their business grows, simply based on their contractual year. Our income also comprises some fixed fees and charges linked to number of live events being provided. The net effect of all these was to increase our income by 33% compared to Q1 last year.

Let's look at the full income statement on slide 7. Operating expenses for the first quarter were €11.3 million. The main elements include staff costs, live information feeds and office costs. On this note, we recently signed a contract to relocate properties in London. And as part of our planned expansion, we will also open a larger office in Bucharest later this year.

Our tax charge for the quarter was reduced by approximately €0.2 million due to the UK tax treatment of share options whereby the company receives corporation tax relief on the gains made by its UK employees. There is a similar level of costs included in the quarter's operating expenses for employer social security costs on these

gains. Overall, this gives us a profit from operations of €2 million compared to €0.8 million last year, and a profit after tax of €1.8 million, up from €0.6 million last year. In summary, it's been a strong quarter with healthy growth for our operators [ph] dropping (00:06:59) our revenues, profits and cash flow.

So now let me pass you back to Kristian turning to slide 8.

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## Kristian Nylén

*Chief Executive Officer, Kambi Group Plc*

Thanks, David. Let's look at the new operators we will work with turning to slide 8. As already mentioned, we are delighted to announce the LeoVegas and Rank Group during the quarter. We discussed LeoVegas and Rank during the quarter presentation in Q4. So I will focus on Mr Green today.

Mr Green is our latest signing that we're delighted to add to our customer portfolio. Mr Green is an award winning online company that offers online casino in 13 countries mainly in Europe. Mr Green is listed on the Swedish marketplace Aktietorget. They were named the International Gaming Awards Operator of the Year for three consecutive years in 2013, 2014 and 2015 and the Mobile Operator of the Year in 2016. This announcement is a thorough testimony to the quality and integrity of our offering. The Kambi Sportsbook will allow Mr Green to enter the sports betting vertical and will complement its current casino offering. We look forward to growing their sports betting business and supporting their ambitious growth plan.

Turning to slide 9. During Q1, Kambi finalized the first phase in developing a multichannel HTML5 client. It's now available for all operators across all channels and will empower our operators to create a best-in-class user experience for its players. As an example, look at the difference in landing pages for three of our operators: LeoVegas, soon to be rolled out and Unibet and Napoleon Games.

Turning to slide 10. One of features enabled in the HTML5 client is live visualization. The feature makes it possible for the players to be highly engaged in the sports betting experience when not watching a broadcast. We have taken visualization to the next level by adding an element of thrill. Instead of just presenting information from a field, we build suspense, making the experience move further towards a feeling of actually watching the game. We will now show a short video recording of how this can play out.

We start off with a free kick for the home team that leads to an attack. The attack progresses into a goal opportunity and its culminating in a shot saved by the keeper. Notice that before the display of actual animation for a shot on target, we give a player a moment of suspense that we believe creates a more exciting experience for a player.

So let me summarize our key points of slide 11. We see exceptional performance across our customer base, which demonstrates our scalable and competitive business model. The announcement of three new deals with top-performing operators continue to support our development. This proves that Kambi's quality services and a strong track record attract high-caliber operators.

We have rolled out the first phase of HTML5 clients across all platforms, which will enable our operators to fulfill their demand for differentiation and innovation. And finally, Kambi is well positioned for the upcoming sporting events this summer, with the Euros and the Olympics being the main events.

I would like to thank you for your interest in Kambi, and now open up for questions.

## QUESTION AND ANSWER SECTION

**Operator:** Thank you. [Operator Instructions] And our first question comes from the line of Anders Hillerborg from ABG. Please go ahead. Your line is now open.

Anders Hillerborg  
*Analyst, ABG Sundal Collier*

Q

Hi, guys. Anders Hillerborg, ABG. I've got a few questions for you. You talked a bit about sort of how your volume-based commission levels impacted your growth versus the turnover growth for your operators. Could you elaborate a bit on this impact from all the base commission levels? I mean has it been more evident in this quarter versus the prior quarters? And if so, why is that? I mean, looking at revenue levels, they're roughly around €14 million which is in line with the levels in Q3 and Q4. So could you elaborate a bit of what has changed in this quarter?

David Kenyon  
*Chief Financial Officer, Kambi Group Plc*

A

Yeah. Hi. It's David here. So [indiscernible] (00:12:44) the operator contracts typically includes tiers of the commission rates that can vary on the higher levels, the profits that they make as their business grows and basically due to the success of the operators. Some have actually hit these lower commission rates compared to Q4 last year.

So these tiers usually take effects in line with the contractual year for each customer. And these vary by operator, the timing of contractual years. And then they reset to the higher tiers at the start of each contractual year. Basically, that means, in Q1 some have actually hit these lower tiers compared to prior quarters. But they're likely to reset in the contractual year further down the line this year.

Anders Hillerborg  
*Analyst, ABG Sundal Collier*

Q

Okay.

David Kenyon  
*Chief Financial Officer, Kambi Group Plc*

A

Each contract is slightly different in terms of timing and tiers and complexity, but [indiscernible] (00:13:30).

Anders Hillerborg  
*Analyst, ABG Sundal Collier*

Q

And I mean, could you elaborate a bit – I mean, how many clients sort of did you see this impact from stepping down in commission levels. I mean, is it only the number one very big client or is it only number two or even more operators? I mean, how many operators do you see this effect for?

David Kenyon  
*Chief Financial Officer, Kambi Group Plc*

A

Most are on a similar kind of structure and most have grown the business and most are hitting the lower tiers of commission. But each one is different in terms of timing and impact to growth.

Anders Hillerborg  
*Analyst, ABG Sundal Collier*

Q

Okay. And...

David Kenyon  
*Chief Financial Officer, Kambi Group Plc*

A

But it's a very standard construct in our contract.

Anders Hillerborg  
*Analyst, ABG Sundal Collier*

Q

Okay. And then sort of on costs, I mean the larger office in Bucharest and in London, I mean could you just confirm is this part of the cost budget or is it something that will come extra?

David Kenyon  
*Chief Financial Officer, Kambi Group Plc*

A

This is all planned. I mean, the London piece is just a replacement to our existing office. So that's just kind of a switch to a different location. The Bucharest one is probably planned expansion in terms of head count, particularly in the trading department. It will be an increased cost, but as location generally, it's quite cost efficient and is part of our planned expansion.

Anders Hillerborg  
*Analyst, ABG Sundal Collier*

Q

And could say something about sort of the potential you see to sign even more clients this year and is it possible to sign more clients before the European Cup or will you say that's too late now?

Kristian Nylén  
*Chief Executive Officer, Kambi Group Plc*

A

Hi Anders. Yeah. As a potential of signing new customers is we still have a quite nice pipe. Obviously, with the urgency of signing before the Euro is starting to end now I would say, it would be very hard for anyone to sign a contract now and go live before the Euros. So the urgency is not really there, but still we are looking positive to new signings during the year.

Anders Hillerborg  
*Analyst, ABG Sundal Collier*

Q

And could you say something about – in the Italian markets now that you have three operators live in the market, could you say something about the interest from other operators and new customers in Italy?

Kristian Nylén  
*Chief Executive Officer, Kambi Group Plc*

A

No. I can't really comment on that but obviously Italy is a very interesting market to us. And we're looking very positively to add more customers either in Italy or somewhere else.

Anders Hillerborg  
*Analyst, ABG Sundal Collier*

Q

Okay. Thanks. I'll let someone else ask a few questions. Thanks.

Kristian Nylén

*Chief Executive Officer, Kambi Group Plc*

Thank you.

A

**Operator:** Thank you. Our next question comes from the line of Dawid Myslinski from Redeye. Please go ahead. Your line is now open.

Dawid Myslinski

*Analyst, Redeye AB*

Yes. Hello, guys. Just a basic question about your business model. During the Euros and the Olympics your customers will increase their marketing. Will this in any way affect the levels of commission you receive?

Q

David Kenyon

*Chief Financial Officer, Kambi Group Plc*

Hi, David. No, their increase in marketing doesn't affect the levels of commission for us. [ph] Other than that (00:16:40) we and our operators obviously hope that their revenues will go up from their marketing efforts. One point I would like to make about the margin for us during [indiscernible] (00:16:56) the Euro is one-off event we will have very high payback on. So that may have an impact on result for the Q2.

A

Dawid Myslinski

*Analyst, Redeye AB*

Okay, because that's kind of a marketing thing as well to offer competitive odds during the Euro Cup.

Q

David Kenyon

*Chief Financial Officer, Kambi Group Plc*

Yeah. Obviously and it's in line with what we have done during the last six months, we were raising the payback significantly on Premier League and Champions League and obviously we will have about the same payback for the Euros.

A

Dawid Myslinski

*Analyst, Redeye AB*

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

Q

Kristian Nylén

*Chief Executive Officer, Kambi Group Plc*

Thank you.

A

**Operator:** Thank you. [Operator Instructions] Okay, as there appear to be no further questions, I'll return the conference to you.

Kristian Nylén

*Chief Executive Officer, Kambi Group Plc*

Okay. Thank you for your questions and for listening in. We look forward to update you on the 27th of July when we publish our second quarter report for 2016.

**Operator:** Thank you. This now concludes our conference call. Thank you all for attending. You may now disconnect your lines.

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