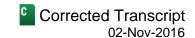


02-Nov-2016

## Kambi Group Plc (KAMB.SE)

Q3 2016 Earnings Call



## **CORPORATE PARTICIPANTS**

Kristian Nylén

Chief Executive Officer, Kambi Group Plc

David Kenyon

Chief Financial Officer, Kambi Group Plc

#### OTHER PARTICIPANTS

Anders Hillerborg

Analyst, ABG Sundal Collier AB

Rasmus Engberg

Analyst, Svenska Handelsbanken AB

Sharish Aziz
Analyst, Danske Bank A/S (Sweden)

#### MANAGEMENT DISCUSSION SECTION

**Operator:** Hello and welcome to today's Kambi Group Q3 Reports 2016. Today, I'm pleased to present Kristian Nylén, CEO; and David Kenyon, the CFO. 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 begin.

#### Kristian Nylén

Chief Executive Officer, Kambi Group Plc

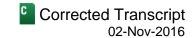
Good morning and welcome to Kambi's third quarter result presentation. I am Kristian Nylén, Chief Executive, and joining me is our CFO, David Kenyon.

Please turn to slide 2. I will go through with the highlights of the quarter. David will give the final update. And then I will talk about the summer events and, as usual, the Kambi initiative. This time I will talk about our progress in the retail space and then speak about our new partnership with NLS. 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 turnkey sports betting service, offered on multiple channels such as Web, mobile and retail terminals. Our service is managed from an in-house developed platform, which has been continuously developed over the last decade. That platform, together with our 512 highly skilled staff, forms the foundation of our service. Our service encompasses a broad offering from front-end user interface through to odds compiling, customer intelligence, and risk management. We currently offer our service to 12 operators.

So, let's look at the quarterly highlights on slide 4. Q3 shows continued strong growth in comparison to the same period last year as our operator's turnover increased by 37% year-on-year, which led to a 25% growth in profit for Kambi.

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The final stages of Euro 2016 was a success for Kambi both financially and operationally. In the Olympics, we had the broadest offering in the market carrying all sports. Olympics is an interesting event from a promotional perspective. From a short-term commercial perspective, it has less impact than you may think with a turnover contributions for the quarter of yet below 5%. I will go more into detail about both these events later in the presentation.

In October, we signed an important strategic partnership agreement with NOVOMATIC Lottery Solutions where we cooperate in the delivery of a state-of-the-art omni-channel tailored for government-regulated lottery sector. Spanish operator, Luckia, will not renew its contract with Kambi. The financial impact will be limited.

As mentioned in the Q2 presentation, we signed the Spanish operator, R. Franco, and we are excited about the new growth prospect. We are expecting R. Franco to start to operate with their current brand, wanabet with Kambi very soon.

NagaWorld has extended contract long-term and, at the same time, expanding its offering with more self-service terminals in its casino in Phnom Penh.

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

#### David Kenyon

Chief Financial Officer, Kambi Group Plc

Thank you, Kristian. Good morning, everyone. In summary, in the quarter, we have seen very strong growth in our operator's results. This in turn has driven our financial performance. Revenue for Q3 2016 was €14.8 million, up 15% on the Q3 2015 figure. This was driven by a significant increase in the turnover of our operators, which I will look at in more detail later. This brings the revenue for the first nine months to €41.7 million, up 25% from last year.

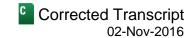
Operating profit for the quarter was €3.1 million at a margin of 21%. This is up from €2.5 million last year and represents an increase of 25%. [ph] The year to 00:04:53 September, the operating profit is €7 million at a margin of 17% compared to €4.1 million in 2015. Our cash flow, excluding movements in working capital, for the quarter was €1.6 million. For the first nine months, the cash flow was €3.1 million. The net cash position at the end of September was €22 million.

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 Q3, we have seen a healthy level of turnover placed through the operators we support, up 37% from Q3 last year. Q3 is typically a quiet quarter in the sports calendar, and in both 2014 and 2016, we see a marked pattern in operating turnover in the quarter following a major football tournament. We are very pleased with the growth in our operator's turnover.

This quarter the overall operating margin was around 7.2%. This margin was supported in particular by results from the final matches of Euro 2016.

Let's turn to the full income statement on slide 7. The movements we saw in turnover and margin impacted the [ph] total 00:06:40 revenue, which is commissioned based on profits generated for our operators. Our operator contracts include certain tiers of commission rates, which can vary as their business grows. This aligns the

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interest of Kambi and its operators to grow their business. This year the significant growth we have seen in some of our larger contracts have seen these operators achieve lower effective commission rates.

On this note, as we support the growth of our operators into newly regulated markets such as Romania and of a new tax regimes such as VAT in Belgium, we share the additional tax burden with the operators. The impact of this on our revenue as compared to Q3 last year was €0.5 million. More than 10% of our income comprises fixed fees and charges linked to the number of live events being provided. These revenues do not scale with the growth in operator turnover but rather provide a fixed income [ph] shift. 00:07:38 The net effect of all these was to increase our income by 15% compared to Q3 last year.

Operating expenses for the third quarter were €11.7 million. The main elements include staff costs, live information feeds and office costs. On this note, as part of our planned expansion, we are delighted to have moved to new offices in London and Bucharest in the past few months. Overall, this gives us a profit from operations of €3.1 million compared to €2.5 million last year and a profit after tax of €2.7 million, up from €2.1 million last year.

Now, let's look at the cash flow on slide 8. Set up from this slide are the major components, which impacted our cash position during the quarter. Our opening cash balance on the 1st of July was €27.5 million. Working capital for the quarter was positively impacted by a decrease in debtors, which were higher at the end of June due to the impact of Euro 2016.

Capitalized development costs in the quarter were €1.5 million. The amortization charge on previously capitalized costs was €1.4 million. We had a high cash outlay in terms of tangible fixed assets relating to the fit-out of both our London and Bucharest offices. As a result of these transactions, our closing cash balance was €29.3 million.

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

#### Kristian Nylén

Chief Executive Officer, Kambi Group Plc

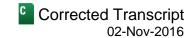
Thanks, David. It has been a summer with some significant sporting events. The Euro 2016 finished off in Q3 as the last six matches of the tournament were played in July. The [indiscernible] 00:09:39 with Wales upset in Belgium. Second significant result was the draw of the 90 minutes between Italy and Germany, and the tournament was finally capped with a surprising champion when Portugal won against France after extra time even though Ronaldo, Portugal's big star, got injured in the early stages.

The contribution from the last six matches was 3.5% over Q3 operator turnover with very favorable margins. The tournament, as a whole, was a success from all perspectives. We experienced perfect technical performance throughout the tournament and created a leading offering for our operators.

Turning to slide 10, the Olympics was another success, creating a large amount of promotional opportunities for our operators. During 19 days, Kambi offered markets on all 41 sports and covered all gold medal events in play. We priced a total of 306 disciplines and 2,142 events. However, to put it in perspective, these events amounted to roughly 20% higher operator turnover than the last six matches of Euro 2016.

On slide 11, we will cover the Kambi initiative in the retail segment. Since the inception of Kambi, it has been our intention to deliver a leading sports book solution also for the retail channel. The past few years we have been developing both the technology and the commercial aspect to set us up for success in this channel. Strategically, the retail channel opens up great opportunities for Kambi in a market that represent more than three quarters of

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the total sports betting revenues globally. It's a market that is not primarily being migrated over to online, but it's rather being digitalized, and this fits Kambi's capabilities very well.

Our ambition has always been to bring the online pace to a retail space. For Kambi, this means, in a scalable way, to show them the depth and the quality of our service to the shops, casinos and other retail environments. Some examples of these are the session handling, enabling players to use the live product just as they would have online. The cash-out feature we brought with us to retail and the ability for omni-channel operators to present the one and the same UX in all channels to better players.

We now see the quality of our retail service in our partnerships. Televisa is extending the service to more casinos in Mexico, and the contract extension has been agreed with NagaWorld. The recent partnership deals with R. Franco and NLS, both of which are leaders in their respective retail fields, offers Kambi the technical as well as the commercial platform to really make a mark in this space.

Turning to slide 12. As I mentioned earlier, we are delighted to announce a new partnership with NOVOMATIC Lottery Solutions also known as NLS. NLS is a wholly-owned subsidiary of the NOVOMATIC Group, a leading gaming technology company with revenues of around \$4 billion. This strategic partnership will see Kambi and NLS bring to the market a full service gaming solution to government regulated lotteries. The service will be cobranded and marketed under NLS Sports Betting powered by Kambi.

The rationale behind the partnership is to work together on delivering a unique and modern sports betting experience across all channels. The target group for this cooperation is the government regulated lotteries, which is a key strategic segment for Kambi. We believe our potential on signing new customers in this market segment has strengthened, and we're looking forward to the joint collaboration with NLS. This service will be showcased for the first time at the World Lottery Summit in Singapore starting on Sunday.

So, let me summarize our key points on slide 13. We delivered an excellent Q3 with strong performance for our operators. We'll see a solid profit growth for Kambi. And with our partnership with NLS, Kambi further strengthened its potential for customer acquisition in the lottery sector.

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

Hi. Anders Hillerborg, ABG here. A few questions for me today. So, first, you talked about in the report about South America and a lot of markets re-regulating there. Could you give some flavor on sort of how will that work out for you? Will you need to wait until the regulation is approved and in place or do you think that you could start to sign up companies there already? Sort of what's your plan for this region?

Kristian Nylén

Chief Executive Officer, Kambi Group Plc

Hi, Anders. I think – I mean, the activity of operators in South America has increased quite a lot the last half year. I think, as in Europe, that they are looking before and the regulation is actually in place, and, yeah, I mean, most of them would like to be up and running when regulation is [ph] open 00:16:44.

Anders Hillerborg

Analyst, ABG Sundal Collier AB

Okay. Thanks. And then, on NLS, I mean, when you say that they are sort of a leader in their field, I mean, what are you referring to then? Because if you look on their number of clients, you can say that they have relatively few clients especially in the sports betting area. So, could you give some more light on sort of how strong their position now and sort of in which fields they are so-called leaders?

Kristian Nylén

Chief Executive Officer, Kambi Group Plc

I would say, NOVOMATIC Group is a clear leader in the industry. I mean, they are a massive company, as I've said, having €4 billion in revenues. NLS is like Kambi, quite a new entity, and they have been winning some really nice contracts lately in the lottery industry, but they have yet been around in the lottery industry for a couple of years. But I will say where I believe they are [ph] clear leaders 00:17:54 on the technical side. I think the technology NLS can provide is on a very different level from old incumbents.

Anders Hillerborg

Analyst, ABG Sundal Collier AB

Okay. Thanks. And when it comes to customers, are there any sort of restrictions on which regions you are focusing on or targeting? Is it just mainly Europe or is it other regions like North America or South America or Asia as well?

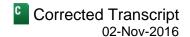
Kristian Nylén

Chief Executive Officer, Kambi Group Plc

With NLS, I think the only restriction is that it should be government-regulated lotteries.

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#### Anders Hillerborg

Analyst, ABG Sundal Collier AB

And do you see any potential to expand sort of this deal to the rest of the NOVOMATIC Group and their other subsidiaries as well? I mean, that could open up much bigger opportunities for you given their size of the group.

Kristian Nylén

Chief Executive Officer, Kambi Group Plc

I hope there is an opportunity. And yeah, we obviously would be very happy to do something with the NOVOMATIC Group as well.

Anders Hillerborg

Analyst, ABG Sundal Collier AB

And then just finally, the Q4 so far, I mean, could you give some flavor on what the start has been to Q4 so far?

Kristian Nylén

Chief Executive Officer, Kambi Group Plc

No. As usual, we try to refrain from giving any indications. But I guess Unibet is usually doing it, and we can probably get – [ph] give some indication 00:19:27 from that for us as well.

Anders Hillerborg

Analyst, ABG Sundal Collier AB

Okay. Great. Thanks.

Kristian Nylén

Chief Executive Officer, Kambi Group Plc

Thanks.

**Operator:** Thank you. Thank you. Our next question comes from the line of Rasmus Engberg from Handelsbanken. Please go ahead, your line is now open.

Rasmus Engberg

Analyst, Svenska Handelsbanken AB

Yes. Hi. Good morning. I had a question on – did you mention anything on the size of the fixed fees in relation to the variable fees? Could you outline that again what you said?

David Kenyon

Chief Financial Officer, Kambi Group Plc

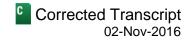
Yeah. Sure. Hi. We said more than 10% of our income is from the fixed fees. Obviously, those don't really scale [ph] if you take that 00:20:06 one year versus the next. So, those are going to stay relatively stable. So, we have more than 10%.

Rasmus Engberg

Analyst, Svenska Handelsbanken AB

And they are in – are they typically in the operator's currencies or are they denominated in some other revenue?

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David Kenyon Chief Financial Officer, Kambi Group Plc
I mean, on most, I'd say those are in euros.
Rasmus Engberg Analyst, Svenska Handelsbanken AB
Yeah.
David Kenyon Chief Financial Officer, Kambi Group Plc
[indiscernible] 00:20:31 the main ones.
Rasmus Engberg Analyst, Svenska Handelsbanken AB
Yeah. And do you have anything to update us on – with regards to the Stan James business that Unibet bought? Is that something that you will see on your platform in next year you think or?
Kristian Nylén Chief Executive Officer, Kambi Group Plc
I refer to Unibet on that part. I think it's up to them to discuss the Stan James business.
Rasmus Engberg Analyst, Svenska Handelsbanken AB
And then, now, as you said, we've had two quite large sporting events during this year. Where are you focusing your investments going forward from here? Is it more a broad offering or is it more in the platform or where is the focus right now in terms of investing?
Kristian Nylén Chief Executive Officer, Kambi Group Plc
I think when it comes to investment, there is two areas where we are spending most, and the one is, yeah, IT development across all areas from automation front and so on, retail. I think that's the biggest area of investment and [indiscernible] 00:21:55 is of course operationally to be able to create more live events, we have to expand the number of trade [ph] assessment 00:22:05.
Rasmus Engberg Analyst, Svenska Handelsbanken AB
Okay. Thank you.
Kristian Nylén Chief Executive Officer, Kambi Group Plc
Thank you.
Operator: Thank you. Our next question comes from the line of Sharish Aziz from Danske Bank. Please go ahead, your line is now open.

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#### Sharish Aziz

Analyst, Danske Bank A/S (Sweden)

Thank you. This is Sharish calling from Danske Bank. I have two questions. What with – when you say limited impact from termination of Luckia, what exactly is – can you quantify limited impact? And then of course, on FX tailwind on EBIT, how much was that in absolute numbers? Thank you.

Kristian Nylén

Chief Executive Officer, Kambi Group Plc

I can't give you this much on Luckia, but it's lower-single digits on the revenue line we're talking about. And obviously, I expect that impact to be offset by new customer signings.

Sharish Aziz

Analyst, Danske Bank A/S (Sweden)

Thank you.

David Kenyon

Chief Financial Officer, Kambi Group Plc

The FX question, I will take that one.

Sharish Aziz

Analyst, Danske Bank A/S (Sweden)

Yeah.

David Kenvon

Chief Financial Officer, Kambi Group Plc

Yeah. I mean, if you look at the Q3 results, [ph] that's kind of based on the 00:23:14 Q2 FX rate, yeah, actually it's reduced both our costs in our revenue. Our revenue is reduced by €0.2 million. Our costs are reduced by €0.3 million for our GBP costs, UK staffing and office costs. So, net effects around €0.1 million on EBIT level.

Sharish Aziz

Analyst, Danske Bank A/S (Sweden)

Sorry. Could you please repeat that, David? You might've checked...

David Kenyon

Chief Financial Officer, Kambi Group Plc

Yeah. Sorry. €0.1 million net positive effect on EBIT.

Sharish Aziz

Analyst, Danske Bank A/S (Sweden)

Okay. Thank you. And then just a follow-up on the termination of Luckia contract. What – whose – was it a mutual decision or was it Luckia? Why are they actually terminating the contract?

Kristian Nylén

Chief Executive Officer, Kambi Group Plc

I would – we couldn't agree on new terms. So, yeah, I don't know what is that – simple answer on that question.

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Corrected Transcript
02-Nov-2016

Sharish Aziz

Analyst, Danske Bank A/S (Sweden)

Okay. Perfect. Thank you.

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Kristian Nylén Chief Executive Officer, Kambi Group Plc

Thank you.

**Operator**: Thank you. [Operator Instructions] Okay. There appeared to be no further questions. I'll return the conference to you.

Kristian Nylén

Chief Executive Officer, Kambi Group Plc

Okay. So, thank you for your questions and for listening in. We're looking forward to updating you on the 14th of February when we publish our fourth quarter result 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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