

14-Feb-2017

# Kambi Group Plc (KAMB.SE)

Q4 2016 Earnings Call

## CORPORATE PARTICIPANTS

Kristian Nylén

*Chief Executive Officer, Kambi Group Plc*

David Kenyon

*Chief Financial Officer, Kambi Group Plc*

---

## OTHER PARTICIPANTS

Rasmus Engberg

*Analyst, Svenska Handelsbanken AB*

Anders Hillerborg

*Analyst, ABG Sundal Collier AB*

---

## MANAGEMENT DISCUSSION SECTION

**Operator:** Ladies and gentlemen, welcome to the Kambi Group Q4 Report for 2016. 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'll be a question-and-answer session. Gentlemen, please begin.

---

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; 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 I will talk about our new customer signings, Televisa and Greentube, followed by Kambi initiatives. This time I will talk about the price differentiation. 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. The platform, together with our 525 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, most of whom, are outperforming the market.

So, let's look at the quarterly highlights on slide 4. As reported, across the industry, December was a month we were [indiscernible] (02:03). December produced the worst betting margin for Kambi since we started in Q3 2014. As the geobenchmark is compared to December 2015, the best month regards to that same modules over the same period. The nature of our business can produce extraordinary short-term swings. The December 2015

margin was more than 70% higher than the margin in December 2016. On a quarterly basis, [indiscernible] (02:37) volatility is of course highly unlikely.

Despite this, I'm very pleased to report that our operators continues to demonstrate the underlying strength of Kambi sports book and reported a solid increase in turnover even when compared to a very strong Q4 in 2015.

Our turnover increased by 19% despite the negative impact from currency comparisons year-on-year. I'm excited that Kambi securities has first full contract in Latin America. We were signing of Televisa. We are now looking forward to building on this foot to across the region. In Q1, we're also delighted to see an immediate impact from our partnership with Novomatic Group, as we unsigned a contract with one of these subsidiaries, Greentube. In November, eGR published their yearly Power50 list. Seven of Kambi's operators are represented on that list with two in top 10. Furthermore, three of these operators were signed during 2016. Also as part of our empowerment study, Kambi has launched its first version of price differentiation, which I will speak more about later. 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, this quarter we have seen solid growth in the turnover of our operators [indiscernible] (4:24) and the operating margin impacted our revenues for the quarter. Revenue for Q4 2016 is €14.3 million, marginally up from the Q4 2015 figure.

This was driven by a solid in the turnover of the operators, offset by the weak margin. I will look in this in more detail later. This brings the revenue for the year to €56 million, up 17% from last year. Operating profit for the quarter was €1.8 million, that's a margin of 13%.

This compares to €3.3 million last year. This operating margin was directly affected by the weak trading margin for the quarter along with our planned increase in operating expenditure as we continue to invest in building our premium Sportsbook.

For the full year, the operating profit is €8.8 million as margin is 16%, compared to €7.4 million in 2015. Our cash flow, excluding movements in working capital for the quarter was €1 million. For the full-year, the cash flow was €4.1 million. The net cash at the end of December was €25.4 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 certain stakes placed through the operators by the end users on Kambi's sports betting service. The margin represents the combined profit margin made by the operators.

In Q4, we have seen a healthy level of turnover placed to the operators we support, up 19% from Q4 last year. Circled on the graph, we see a mild pattern in both 2014 and 2016 in operator turnover. These are both years where the summer contained a major football tournament. We are very pleased with the growth in our purchase turnover.

This quarter, the overall operating margin was around 6.3%. This margin was in particular impacted by bad results in the Premier League in December, at the time when other major football leagues were on winter break, so there was less diversification of the trading risk. This was an industry wide issue. Let's turn to the full income statement on slide 7.

The movements we saw in turnover and margin impacted the part of our revenue, which is commissioned based on profits generated by our operators. Our operator contracts include certain tiers of commission rates, which can vary by business growth. This aligns the 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. As we support the growth of our operators in the regulated markets and [indiscernible] (07:31) tax regimes such as VAT in Belgium. We share the additional tax burden with the operators. The impact of this on our revenue, compared to Q4 last year was €0.5 million. More than 10% of our income comprises fixed fees and charges linked to the number of life events and providers. These revenues do not scale with the growth in operator turnover, but rather provide a fixed income stream. Sterling was significantly weaker in Q4 2016 than in Q4 2015. The impact was to reduce the reported value on transactions from end users based in the UK with the impact being approximately €0.2 million. The biggest effect on revenue was the weak operator margin, these other areas also have an impact on our revenue for the quarter.

Operating expenses for the fourth quarter was €12.5 million. The main elements include stock costs, live information feeds, office costs and marketing costs in relation to our attendance at the biannual World Lottery Association Summit in Singapore. Overall, this gives us a profit from operations of €1.8 million, compared to €3.3 million last year. And the profit after tax of €1.2 million compared to €2.9 million last year.

Now, let's look at the cash flow on slide 8. Set up from its slide are the major components, which impacted our cash position during the quarter. Our opening cash balance from the October 1 was €29.3 million. Working capital for the quarter was positively impacted by a decrease in debtors, due to the early settlements of certain invoices. Capitalized development costs in the quarter were €2 million. The amortization charge on previously capitalized costs was €1.5 million. As a result of these transactions, our closing cash balance was €32.3 million.

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

## Kristian Nylén

*Chief Executive Officer, Kambi Group Plc*

Thanks, David. As we mentioned earlier, Kambi secured its first full contract in Latin America where we are signing up Mexican media giant, Televisa. Kambi will be the exclusive supplier of sports betting services for 17 places in casinos and online. Televisa is the largest media organization in Latin America. And these contracts follows a successful proof of concept where it can be deployed its retail offering into two [ph] operator (10:21) casinos.

We are delighted that PlayCity customers have embraced the product so well and look forward to not only expanding the land-based distribution, but also going live via online and mobile channels during 2017.

Turning to slide 10, last week, Kambi signed a contract with Greentube. Greentube is a global interactive business unit of Novomatic. And is the full service provider in the online and mobile gaming sector. This contract follows the MoU with Novomatic Lottery Solutions announced in October 2016.

Kambi will operate fully managed service to Greentube's brands in regulatory markets in Europe. The partnership has the potential to be an important European Sportsbook player alongside its owner has successful casino brands.

And finally, turning to slide 11, I would like to highlight the Kambi initiative price differentiation. Our price differentiation tool allows operators adopt their pricing to their marketing strategy by controlling the payback in order to optimize return for each regulation they are active in.

This gives operators opportunity to strengthen their competitiveness in certain markets and choose to earn higher margins in offers. The flexibility [indiscernible] (12:02) at price utilization tool strengthens our service proposition also to new prospects. This is a major leap in our mission to create technology that marries Kambi's quality and operational excellence with each operator's unique marketing expertise.

This gives our operators opportunities to be empowered with tools for innovation and personalization, in their respective offerings.

So, let me summarize on slide 12. Q4 was not a good quarter in terms of revenues. The result was negatively impacted by very low betting margins in December. However, fundamentally, the operating group was solid.

We signed five high-quality operators during 2016 and we have signed another one already in 2017. We see an increasing interest for outsourcing of sports betting, but also stiffer competition. On the whole, we believe strongly in our sales by far. We are confident in our strategy of investing in people and technology to maintain our premium position as a highest quality service in evolving markets. With that, 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] Our first question is over the line of Rasmus Engberg at Handelsbanken. Please go ahead, Rasmus, your line is open.

Rasmus Engberg

*Analyst, Svenska Handelsbanken AB*

Q

Yes, thank you. Good morning. I was wondering, did you comment about January and February? And can you – if you did that, can you reiterate what you said about that?

Kristian Nylén

*Chief Executive Officer, Kambi Group Plc*

A

Hi, Rasmus. No, we haven't commented on the start of January and February. We opted to – we have a policy of not doing it since [indiscernible] (14:57) some of our operators are also obviously listed up and we let them comment on the results, but I can tell you this much that if you have followed the Premier League, it has been quite a lot better result in January than December.

Rasmus Engberg

*Analyst, Svenska Handelsbanken AB*

Q

Yeah. Yeah. Yeah. That's right. And then, Greentube. I must admit to not having heard about that. Can you give some examples of brands that use their technology currently?

Kristian Nylén

*Chief Executive Officer, Kambi Group Plc*

A

So, Greentube, it's their own brands and it turns a little bit of market, but the most known ones are [indiscernible] (15:47) European markets and [indiscernible] (15:53).

Rasmus Engberg

*Analyst, Svenska Handelsbanken AB*

Q

Right, okay. Thank you. That was it for me at this point. Thank you.

Kristian Nylén

*Chief Executive Officer, Kambi Group Plc*

A

Thank you.

**Operator:** We are now over to the line of Anders Hillerborg at ABG Sundal Collier. Please go ahead. Your line is open.

Anders Hillerborg

*Analyst, ABG Sundal Collier AB*

Q

Hi. Anders here. With regard to the price differentiation, could you – when will that be implemented for – for the operators?

Kristian Nylén

*Chief Executive Officer, Kambi Group Plc*

A

So some of the operators it's already implemented from Kambi site. They can run on it directly, all of them. But it takes some very small adjustment in the integration from each and every operator's site.

Anders Hillerborg

*Analyst, ABG Sundal Collier AB*

Q

Okay, thanks. And then, just finally, you have signed a few customers lately and not all of them are sort of fully rolled out, could you give some indication of the rollout plans for the recent clients you have signed Greentube in and the other that you have signed lately?

Kristian Nylén

*Chief Executive Officer, Kambi Group Plc*

A

I struggle a little bit of giving you data because I'm not – it's not 100% clear for us either, but I would expect both of them to partly or fully being rolled out during the first half of the year.

Anders Hillerborg

*Analyst, ABG Sundal Collier AB*

Q

Okay, great. Thanks.

Kristian Nylén

*Chief Executive Officer, Kambi Group Plc*

A

Thank you.

**Operator:** We now go to the line of [indiscernible] (17:24) at Keel Capital. Please go ahead. Your line is open.

Q

Thank you. So, you obviously are bolstering margins for a week and a quarter, but could you give us any indication of sort of the P&L impact if the margin would have been sort of normalized levels just to get a better feel for the drops and the operating leverage?

Kristian Nylén

*Chief Executive Officer, Kambi Group Plc*

A

Well, I guess very high level you can say, you know at 6.3%; and if you, if you return at 7%, then that approximately 10% higher on, on the part that's commissioned, which is the largest part of that revenue stream.

Q

Okay. Thank you [indiscernible] (18:05) And also on, I'm not, I went in late in the, in the Q&A queue here, but did you provide a timeline for Televisa and R. Franco or is R. Franco already live?

Kristian Nylén

*Chief Executive Officer, Kambi Group Plc*

A

R. Franco is already live. They start operating in November and Televisa. So, you mentioned we are not [indiscernible] (18:32) clear on the, the date yes, but I would expect during the first half year.

Q

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

**Operator:** [Operator Instructions] We have a final question from Rasmus at Handelsbanken. Please go ahead. Your line is open again.

Rasmus Engberg

*Analyst, Svenska Handelsbanken AB*

Q

Yes. I just wanted to check my own assumptions here, can you sort of roughly elaborate what the, what the FX impact was on, on earnings in this, in this quarter?

Kristian Nylén

*Chief Executive Officer, Kambi Group Plc*

A

Yeah. I mean on, on the, on the revenue sides, the weak pounds reduced our revenues by around €0.2 million. Overall, on costs, we're actually pretty much neutral on FX with the varying impacts of assets and costs of GBP and SEK. So – and so, overall, the only revenue side [indiscernible] (19:34)

Rasmus Engberg

*Analyst, Svenska Handelsbanken AB*

Q

Okay. All right. Thanks.

**Operator:** That seems to be the final question for today, gentlemen. So, may I please pass back to you for any closing comments.

---

## Kristian Nylén

*Chief Executive Officer, Kambi Group Plc*

Okay. Thank you for your questions and for listening in. We look forward to updating you on the 26th of April when we publish the first quarter results of 2017.

---

**Operator:** This now concludes today's call. So, thank you all very much for attending. And you may now disconnect.

### 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 2018 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.