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# Kambi Group Plc (KAMBI.SE)

Q1 2017 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

Rasmus Engberg

*Analyst, Svenska Handelsbanken AB*

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## MANAGEMENT DISCUSSION SECTION

**Operator:** Ladies and gentlemen, welcome to the Kambi Group Q1 Report 2017. 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.

Speakers, please begin.

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Kristian Nylén

*Chief Executive Officer, Kambi Group Plc*

Good morning and welcome to Kambi's first quarter results 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 signing, Greentube, the proposed Swedish regulation, followed by Kambi initiative. This time, I will talk about front-end improvements in retail. After conclusion of the 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 570 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 through 13 operators, most of whom are outperforming the market.

So, let's look at the quarterly highlights on slide 4. As communicated on the 5th of April, the trading margin for the first quarter came in well below expectations, after a strong January, February and March were [indiscernible] (00:02:14). In particular, the Round of 16 in Champions League and the 26th of February, when the 11 highest state favorites all won, impacted result very negatively. On the positive side, we see a solid growth in our operators' turnover, up 27% compared with a very strong Q1 2016.

We are very pleased with the success of our operators and due to the strong growth in the turnover, Kambi's revenues grew by 7%, despite a very poor trading margin. We also mentioned in the Q4 report, we signed a contract with Greentube, Novomatic, effective in January. I will elaborate more on Greentube later in the presentation.

Kambi was, during the quarter, awarded the ISO 27001 certification. This provides a framework of Kambi to manage regulatory requirements and protect information assets so they remain safe and secure. This certification is also a prerequisite for many public procurement processes.

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

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## David Kenyon

*Chief Financial Officer, Kambi Group Plc*

Thank you, Kristian. Good morning, everyone. Revenue for Q1 2017 was €14.2 million, up from €13.3 million in Q1 2016. This was driven by a strong increase in the turnover of our operators, offset by a weak trading margin. And I will look at this in more detail later.

Operating profit for the quarter was €1.4 million at a margin of 10%, this compared to €2 million last year. The operating profit was directly affected by the trading margin for the quarter along with our planned increase in operating expenditure, as we continue to invest in building our premium Sportsbook. Our cash flow, excluding movements in working capital for the quarter, was €0.8 million. The net cash position at the end of March was €23.8 million.

So let's now look at the income in some more detail, turning 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. In Q1, we've seen a very strong level of turnover, up 27% from Q1 last year. The margin represents the combined trading margin made by the operators. Historically, the trading margin presented has been after the deduction of Sportsbook-specific marketing costs as these were of a lower level.

However, there's been a growth in relative size of certain operators, which had increased the impact of these marketing incentives. As such, going forward, Kambi will present its operators' trading margin before the deduction of such marketing costs. This quarter, the overall operator trading margin before marketing deductibles were 6.2%. This margin was impacted by match results in the major football leagues in the second half of the quarter. It is in the nature of business for the trading margin to fluctuate between quarters, depending on the results of sporting events. This margin impact was accentuated by the effects of accumulators, as we can see on slide 7.

This slide shows how the pre-match margins compare year-on-year for both single and accumulator bets. Accumulator bets are those with selections of more than event where each selection needs to win for the bets to be successful.

Whilst margins on single bets saw a small increase year-on-year, here we see how margin on accumulators almost halved. This is typical for a period with a high [ph] propulsion of (00:06:35) favorites winning in clusters, which we saw in this quarter.

In this report, reflecting out is the new graph to show the transition from operator turnover growth to our revenue growth shown on slide 8. After adjusting for FX, operator turnover grew by 27% compared to Q1 2016. The Q1 2017 operating margin before deductible costs was 6.2% compared to 6.9% in Q1 last year. The impact of this lower margin was due to operators' gross gaming revenue increased by 14% year-on-year.

Across our revenue model, we share certain costs with our operators. These can include marketing costs such as free bets and betting duties. 54% of our operators' GGR derives from re-regulation markets and carrying betting duties. Increases in these areas along with the addition of certain other taxes such as VAT in Belgium impacted the growth of operator net gaming revenue, which was 11% in Q1 2017.

The company's commission is based on a percentage of the operators' net gaming revenue. To promote and support growth, some of the customer contracts include tiers with lower commission rates on a higher levels of their revenues. The tiered commission levels run on a yearly basis depending on the contractual year.

The growth in the business of many of the operators resulted in a lower effective commission rate in Q1 2017 than in Q1 2016. Also, around 70% of our revenues are fixed, and do not scale with operator turnover growth. Overall, these elements resulted in Kambi's revenue increasing by 7% year-on-year.

Let's turn to the full income statement on slide 9. Operating expenses for the quarter were €12.9 million compared to €11.3 million last year. The largest part of this is staff costs, which represented 42% of total operating expenses. We're continuing to invest in the people and infrastructure required to create the best Sportsbook on the market. Overall, this gives us a profit from operations of €1.4 million compared to €2 million last year and a profit after tax of €1.1 million compared to €1.8 million last year.

So now, let me pass it back to Kristian, turning to slide 10.

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## Kristian Nylén

*Chief Executive Officer, Kambi Group Plc*

Thanks, David. As I mentioned earlier, Kambi has signed an agreement with Greentube, a subsidiary of Novomatic, for its online B2C operations across regulated European markets. Kambi will provide its fully managed service to Greentube's online brands. The launch will be phased in the regulated markets and we expect Greentube to launch into their first markets during the summer. It is a promising partnership and we believe it has great potential to be an important pan-European Sportsbook player alongside its already successful casino brands.

Turning to slide 11, Sweden, which is one of the most important jurisdictions for Kambi, is preparing to regulating the online gambling market in 2019. With a suggested tax rate of 18%, it would impact both our operators' revenues as well as Kambi's. However, as we have communicated before, we look at this as a positive development. At Kambi, we believe this will lead to increased opportunities in signing new operators such as state-owned operators as well as other entrants into the market.

Turning to page 12, I would like to update you on Kambi's retail offering. During the quarter, we closed one of the bigger gaps in our retail service when launching the new interface from a self-service betting terminals. The product is now powered by the same depth, speed, and quality of the online service. We have optimized the interaction and the content presentation for the retail space.

[ph] We've read the transition (00:11:22) that the recent market is going through. Our solution now becomes a leading proposition. The new user interface has been built on the same empowerment platform that all Kambi

operators have access to. It's a compelling showcase for how we, in unique ways, can build scalable solutions that easily are differentiated to deliver the most relevant UX at any time and place.

So, let me summarize on slide 13. Q1 was not a good quarter in terms of revenues. Due to adverse trading margins, these were impacted by player-friendly outcomes. We did sign a new renowned operator in Greentube and we saw a strong turnover growth up 27% generated by our operators. The continued strong operator turnover growth and momentum in the market highlights the strength of Kambi and the value we provide to our operators.

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

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## QUESTION AND ANSWER SECTION

**Operator:** [Operator Instructions] Our first question comes from the line of Rasmus Engberg from Handelsbanken. Please go ahead with your question. Your line is now open.

Rasmus Engberg

*Analyst, Svenska Handelsbanken AB*

Q

Yes. Good morning. I just wanted to ask you how you felt about the betting margin in the second quarter. Is it on track to recover towards the historical levels, or how do you see that?

Kristian Nylén

*Chief Executive Officer, Kambi Group Plc*

A

Hi, Rasmus. We have the policy not to comment on the betting margin for the future quarters. But I assume you listened in to Unibet and as it's one of our largest operators, I think you can draw the same conclusion as with them. But the beginning of April hasn't started very well.

Rasmus Engberg

*Analyst, Svenska Handelsbanken AB*

Q

But you also had a rather weak margin during last year that was mainly in the European Cup, wasn't it?

Kristian Nylén

*Chief Executive Officer, Kambi Group Plc*

A

No. I will say, European Cup was very good margin.

Rasmus Engberg

*Analyst, Svenska Handelsbanken AB*

Q

In Q2, no?

Kristian Nylén

*Chief Executive Officer, Kambi Group Plc*

A

In Q2. Sorry. Yeah, it was probably most in Q3, sorry.

Rasmus Engberg

*Analyst, Svenska Handelsbanken AB*

Q

Yeah. Okay. Do you feel comfortable that you're back to growing your earnings now?

Kristian Nylén

*Chief Executive Officer, Kambi Group Plc*

A

Yeah. I mean, if I look at this report with normal margins – trading margins, I think we would have shown very, very good results. So, I absolutely believe that we are on – have a very good foundation for growing in the future.

Rasmus Engberg

*Analyst, Svenska Handelsbanken AB*

Q

Okay. Thank you.

Kristian Nylén

*Chief Executive Officer, Kambi Group Plc*

A

Thank you.

**Operator:** [Operator Instructions] We appear to have no question at this time. I hand the conference back to you, sir.

Kristian Nylén

*Chief Executive Officer, Kambi Group Plc*

Right. Thank you for your questions and for listening in. We would look forward to updating you on the 26th of July when we publish our second quarter results for 2017.

**Operator:** This concludes our webcast. You may now disconnect your lines. Thank you.

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