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# Kambi Group Plc (KAMBI.SE)

Q1 2018 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

Christian Hellman

*Analyst, Nordea Bank AB*

Rasmus Engberg

*Analyst, Svenska Handelsbanken AB*

Viktor Högberg

*Analyst, Pareto Securities AB*

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## MANAGEMENT DISCUSSION SECTION

**Operator:** Ladies and gentlemen, welcome to the Kambi Group Q1 Report 2018. 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 result presentation. I am Kristian Nylén, Chief Executive, and joining me is our CFO, David Kenyon.

Please turn to slide 2. In a moment, I will give you a brief overview of the quarter, after which David will take you through the numbers. I will then speak about the quarter in a little bit more depth and, as usual, a Kambi initiative, which in this quarter focuses on the summer's World Cup. Following 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 620 highly-skilled staff forms the foundation of our service.

The Kambi Sportsbook is formed of a multiple elements from front-end user interface through to odds compiling, customer intelligence, risk management and customer empowerment capabilities. We currently offer our service to 17 operators, spread across six continents, making us a truly global sportsbook provider.

Let's look at the quarterly highlights on slide 4. The year has started well for Kambi with Q1 producing quarterly revenues of €16.4 million, a 15% year-on-year increase. Operator trading margin for the quarter was 7.9%, a figure above our long-term expected average. We added a new customer in Casumo. Casumo is one of the fastest growing and most-innovative gaming companies in Europe. Key to the deal was the flexibility of our platform and its ability to empower operators to innovate and we are delighted to have Casumo onboard.

After Q1, we signed our 17th customer in Stanleybet Romania. The addition of Stanleybet to the Kambi network is significant for a number of reasons, which we will discuss later in the presentation. The signing makes it 10 consecutive quarters, in which we have signed at least one new customer and shows the momentum the business continues to build.

The quarter also saw us make a strategic investment in virtual sports and early stage Virtus Sports supplier. Adding virtual sports to the Kambi offering is something we have been considering for some time. And in Virtus Sports, I believe we have found the right product of the right size.

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.

In Q1, we had revenue of €16.4 million. This was driven by a strong operator trading margin at 7.9%. Operating costs were €14.4 million, giving the operating profit for the quarter of €2 million. Our cash flow for the quarter excluding working capital movement was €0.6 million and our net cash position at the end of March was €28.9 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. In turnover, the total stakes placed with the operators by their end users on Kambi sports betting service.

In Q1, we have seen turnover placed with our operators slightly down on Q1 last year. The level of operator turnover was suppressed by the much stronger operator trading margin in Q1 this year due to the correlation between new [ph] symmetric (00:04:58).

There was also an impact in operator turnover from the particularly strong operator trading margin we saw in Q4 and the start of Q1. As there was typically a time lag between margins decreasing and operator turnover picking up. The margin represents the combined trading margin made by the operators.

In Q1, this margin was 7.9%. It's in the nature of the business for the trading margin to fluctuate between quarters, mainly on the results of sporting event. [indiscernible] (00:05:32) expected long-term average for the operating trading margin in 6.5% to 7%.

You can see the conversion from operating turnover growth to our revenue growth on slide 7. Including FX impact, operator turnover fell by 3% compared to Q1 2017. The operator trading margin multiplied by the turnover generates the operator's growth Kambi revenue. The operator trading margin of 7.9% was well ahead of Q1 last year, leading to an overall operated GGR increase of 25% year-on-year.

As part of our revenue model, we share certain costs with our operators. These can include player incentives such as free bets and betting duty. During the quarter, the Belgium [indiscernible] (00:06:24) online license orders should not be subject to VAT, which will have a positive impact on our revenues going forward in the range of €0.1 million to €0.2 million per quarter.

We also have [ph] adjusted revenue policy out there in Norway. (00:06:39) For us, Norway represented less than 10% of our total operator turnover in Q1. It is very early stages, but we will monitor the situation closely.

Kambi's commission is based on a percentage of the operator's NGR. To promote growth, some of the customer contracts include tiers with lower commission rates on the higher levels of the sports betting revenue. This along with the fixed part of our revenues is shown in the other column of the graph. The other column also include the impacts of the 888 contract extension signed in July last year. This is the last quarter where we will see this year-on-year negative impact. The net effect of all these factors is that revenue for Q1 2018 is up by 15% from Q1 last year to €16.4 million.

Let's turn to the full income statement on slide 8. Operating expenses for the first quarter were €14.4 million, up by 3% from Q4. Operating expenses are forecast to increase in Q2 by 3% to 5% compared to Q1, as we continue to invest in the future to ensure we maintain our technical and market leadership. Overall, in Q1, profit from operations is €2 million compared to €1.4 million last year. And profit after tax is €1.5 million compared to €1.1 million last year.

Now, let's look at the cash flow on slide 9. So from this slide are the major components, which impacted our cash position during the quarter. Our opening cash balance on the 1st of January was €34.3 million. Working capital increased in the quarter by €1.6 million, reflecting a decrease in debtors due to the particularly high level of our trade debtors at the end of Q4. Capitalized development costs in the quarter were €2.1 million, whilst the amortization charge on previously capitalized costs was €2 million. We also invested €0.6 million in acquiring 25% of Virtus Sports, an early stage virtual sports company. This offering will complement the Kambi Sportsbook in due course.

The net cash inflow for the quarter was €2.2 million and our closing cash balance was €36.3 million.

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

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**Kristian Nylén**

*Chief Executive Officer, Kambi Group Plc*

Thank you, David.

As I touched on earlier, in Q1, we signed our 16th customer, Casumo. Casumo is one of the most innovative gaming operators in our industry, and we'll use Kambi to bring its crucial common entertaining experiences into the sports betting vertical. To do so, Casumo will leverage our open APIs to build up on the Kambi Sportsbook, an ability which is unique to the market.

Casumo is on track to launch a football-focused product before this summer's World Cup which will target the large group of football fans who don't ordinarily bet. Being able to house and power a brand such as Casumo alongside our more traditional sports betting brands reflects the flexibility of the Kambi platform and its ability to service operators of all types.

Now, on to slide 11. Last week we signed Stanleybet Romania one of the most recognizable sports betting brands in the Romanian market. Stanleybet holds the top 3 position on the Romanian high-street which with more than 300 shops.

A rollout will begin in 2019. Stanleybet also has an online presence which will move across to the Kambi's Sportsbook this year. All being well, their online launch should take place before the World Cup. This is a significant deal for Kambi for a number of reasons. Primarily, Stanleybet Romania's sizeable retail business is the third largest operator on the high-street.

This will give us the ability to showcase the strength of a Kambi retail product on a large scale. And provide us with a good proof point moving forward. In addition, Stanleybet has a strong sports betting heritage. Sports is a core product. So the fact we were selected by Stanleybet above many suppliers speaks the quality of our Sportsbook.

Moving on to slide 12. In February, we made a strategic investment in virtual sports startup Virtus Sports. In recent years, virtual sports has become an important part of our Sportsbook offering. And as a result, we have observed growing appetite among our customers to offer virtual sports product. With this investment, Kambi can provide a fully integrated service. Furthermore, the deal creates the value of Virtus Sports. We've been gaining access to the Kambi customer [ph] list (00:12:30). So, overall I believe Virtus Sports will strengthen the Kambi Sportsbook, improve our offering to our current and existing customers, make us more attractive proposition to the current and future customers and provide a good return on investment.

Turning to slide 13. The World Cup kicks off in Russia in around eight weeks' time and Kambi has been busy preparing for one of the world's biggest sporting event. Kambi as a business has experienced tremendous growth since 2014 World Cup. We now have around the double amount of customers many of whom have dominant market positions. We've been in many of competing nations. And as such, we are committed to delivering a market-leading experience to each customer in every market they operate.

For the players, this may be the first time they have used the Kambi-powered Sportsbook. And we have been working hard to ensure we have every box ticked come June 14. For instance, we will be launching a number of markets first for the World Cup, some of which we are currently in the final stages of testing.

We also understand that the World Cup is more than just 64 matches. For operators, the weeks leading out to and following the World Cup are also very important. This is why in February when we gathered our operators together for our annual Kambi operators summit, we demonstrated how we can best leverage the Kambi platform to make the most of World Cup before, during and after the tournament.

We did this because Kambi is much more than just a Sportsbook supplier. We aid our customers with services such as real-time play data feeds, customer acquisition tools, and expanded widget capabilities, open APIs, and many other resources to ensure we are able to make the most of the Kambi platform.

On to slide 14. So to recap Q1, it was a very successful quarter for Kambi. We have a 15% rise in revenues. We've signed another new customer in Casumo, and with Stanleybet Romania added in Q2. But at least one new customer in each quarter for the past two and a half years. The business has great momentum, and through our scalable model and flexible platform, we are very well positioned to capitalize on market developments such as the opening of new markets. Most notably, we are, of course, focused on what's happening in the United States.

And now, we will open up for questions.

## QUESTION AND ANSWER SECTION

**Operator:** Thank you. [Operator Instructions] Thank you. Our first question comes from Christian Hellman from Nordea. Please go ahead. Your line is open.

Christian Hellman

*Analyst, Nordea Bank AB*

Q

Hi. Christian Hellman here from Nordea. Just a question on volume versus Sportsbook margin. So if you could just talk a bit about that and how that sort of impacted the quarter? The Sportsbook margin was very high in Q4, and I guess players lose their money, don't have much to gamble within here in Q1 and maybe their confidence is low, et cetera. And so how that's impacted Q1 and how you saw that develop during the quarter and maybe perhaps also into Q2?

Kristian Nylén

*Chief Executive Officer, Kambi Group Plc*

A

Yes, thank you, Christian. As I've said before, I mean, we still struggle to have an exact measure of the elasticity between turnover margin, but it has a significant impact. And I made a comparison with just a simple roulette example last quarter where I said that, I mean, if you go through that table with SEK 100 and decided to bet on [ph] red (00:17:46) and win. You can double up the next time, and then you lose and you have turned over to SEK 300.

If you lose the first time, you would just turn over to SEK 100 with exact same result in the end. And I guess that is the biggest impact on a [ph] calculated (00:18:07) turnover and margin. I don't think it's so much about the customers losing confidence or customers stop betting. I think it's more about being able to use the same amount of money several times when the margin is lower.

So, yeah, to summarize, I believe that the turnover would have been much higher given a normalized margin. And just to be very clear as well, Q1 last year was one of the worst quarters. And so, we get the double effect in the year-on-year comparison.

Christian Hellman

*Analyst, Nordea Bank AB*

Q

Right. On turnover?

Kristian Nylén

*Chief Executive Officer, Kambi Group Plc*

A

Yeah, exactly.

Christian Hellman

*Analyst, Nordea Bank AB*

Q

And anything on the start of Q2? Is that possible to comment on?

Kristian Nylén

*Chief Executive Officer, Kambi Group Plc*

A

We have chosen never to comment on it because, I mean, it affects many of our customers who are also listed. So, I leave our operators to comment on the opening of Q2.

Christian Hellman

*Analyst, Nordea Bank AB*

Q

Fine. But just to look back at Q2 last year, how was – Q2 was relative weak last year in terms of the margin. Could you say something about how it was during April, May, June last year? Just to refresh your memory.

Kristian Nylén

*Chief Executive Officer, Kambi Group Plc*

A

Yeah. As you said, I think the margin was unlike what it was in Q1 last year. I think it was 6.3% if I remember well. So, obviously we hope to have a much higher margin and on top of that it's also well-kept so, yeah. I expect also to be able to have both higher margin and the high turnover than the last year.

Christian Hellman

*Analyst, Nordea Bank AB*

Q

Yeah. Sounds reasonable. And just another question on Norway which caused quite a big stir in the online gambling sector yesterday with some news out about Norway potentially issuing IP blocks or some sort of measure at least in regards to foreign operators. Could you comment a bit on that and how that could potentially impact you and knowing that Kindred is one, who is your largest customer and they have business in Norway?

Kristian Nylén

*Chief Executive Officer, Kambi Group Plc*

A

Yeah. So, I mean, it's very early stages. So, I think, I mean, the only thing that what was issued yesterday was more or less a decision – a possible decision [indiscernible] (00:20:54) made to investigate a possible IP blocking. Having said that, as David communicated earlier, if that were to happen, the turnover Kambi had there from Norwegian customers in Q1 was less than 10%.

Christian Hellman

*Analyst, Nordea Bank AB*

Q

Okay. Great. Sorry. I missed that comment, less than 10% in Q1.

Kristian Nylén

*Chief Executive Officer, Kambi Group Plc*

A

Yes.

Christian Hellman

*Analyst, Nordea Bank AB*

Q

I think – and just on finally on the PASPA, the law in the U.S., nothing new yet. When could we potentially hear something about that? Are there any dates that we should sort of be aware of?

Kristian Nylén

*Chief Executive Officer, Kambi Group Plc*

A

No. I think you're almost in a situation where most dates are important. But I think Mondays, every fourth week are most important potential dates. But I think also like yesterday, there were some things coming out from the

Supreme Court. So, yeah, I can't give you any special dates, but we and everybody else in the industry expect the decision before end of June.

Christian Hellman

*Analyst, Nordea Bank AB*

Q

Okay. Great. Thanks. That was it for me.

Kristian Nylén

*Chief Executive Officer, Kambi Group Plc*

A

Thank you.

**Operator:** Thank you. The next question comes from Viktor Högberg from Pareto. Please go ahead. Your line is open.

Viktor Högberg

*Analyst, Pareto Securities AB*

Q

Yes. Good morning, guys. So, could you talk about or elaborate a bit about Stanleybet Romania? What kind of levels were you on? What's the split between retail and online? And what kind of potential do you expect from this signing?

Kristian Nylén

*Chief Executive Officer, Kambi Group Plc*

A

Yeah. Thank you. So, I think it's fair to say that it's a vast majority of the current income in retail, which will not impact the figures at all until 2019. So, the impact for the quarter, for this year, I will say, is not very big. I think for this year, what really excites us about this deal is obviously that we have found the first customer to rollout retail in a larger scale. And I think that will have a very, very positive effect on the future sales opportunities.

Viktor Högberg

*Analyst, Pareto Securities AB*

Q

Yeah. Yeah. Of course. But does that entail something for you to gear up your, like hirings. What is your investments to be able to roll out large scale retail operations for that? Thank you.

Kristian Nylén

*Chief Executive Officer, Kambi Group Plc*

A

I mean, we are not operating the hardware. So for us, it's more about building the capability and that's something we have been building on since 2011. So you don't need to expect any hirings at all because of it.

Viktor Högberg

*Analyst, Pareto Securities AB*

Q

Okay. Great. So just to make sure about the [ph] 888 (00:24:15) renewal, in Q1 you saw the last hit from that from last year. Was that around 3% in a drop-through from the other post there?

David Kenyon

*Chief Financial Officer, Kambi Group Plc*

A



Yeah. That's right. It's around – absolutely the amount is around [ph] €0.5 million (00:24:32). So, yeah, around 3% in the...

Viktor Högberg

*Analyst, Pareto Securities AB*

in the [indiscernible] (00:24:35).

Q

David Kenyon

*Chief Financial Officer, Kambi Group Plc*

Yeah.

A

Viktor Högberg

*Analyst, Pareto Securities AB*

Okay. Great. So do you have any updates on the – in the last quarter you said you're investigating the long-term – longer term sports margins expectations from 6.5% to 7%. You were looking to possibly raising it. Have you gone any further in your investigations?

Q

Kristian Nylén

*Chief Executive Officer, Kambi Group Plc*

We're still investigating. I think it keeps on being very strange month. So it's really hard to get conclusive evidences. So we don't have a new guidance yet. I hope to possibly have something to conclude next quarter.

A

Viktor Högberg

*Analyst, Pareto Securities AB*

Okay. Great. So going back to costs. Last quarter you got I think 3% to 5% and your costs grew sequentially with that amount and now 3% to 5% again. Is this a sequential growth rate to be expected going forward, this year and long term? What are you seeing in terms of hirings and other OpEx?

Q

David Kenyon

*Chief Financial Officer, Kambi Group Plc*

Certainly, for this year, I'd say, yeah, I mean, I think typically we're going to be guiding around 3% to 5% per quarter. As we take on new staff particularly on the development front, longer term, we'll see but I mean, I hope it may come down slightly from those levels in quarterly basis, long term, but certainly for this year, certainly Q2 we're looking at [indiscernible] (00:26:08) 3% to 5%.

A

Viktor Högberg

*Analyst, Pareto Securities AB*

Okay. So, last question, do you see any material effects from getting the legacy Stan James players onto the Unibet brand?

Q

Kristian Nylén

*Chief Executive Officer, Kambi Group Plc*

I would say roughly it's not a big impact either way since we also know how they have moved the Unibet racing customers over to the new Kindred racing platform. So it's, yeah, the total is in, yeah, very small impact.

A

Viktor Högberg

*Analyst, Pareto Securities AB*

Q

Okay. That's helpful. Okay. Thank you very much.

**Operator:** Thank you. [Operator Instructions] Thank you. Our next question comes from Rasmus Engberg from Handelsbanken. Please go ahead. Your line is open.

Rasmus Engberg

*Analyst, Svenska Handelsbanken AB*

Q

Yes, hi. Good morning. Just wanted to ask you. Since you mentioned Norway, would it be fair to assume that Sweden is slightly more than twice that exposure given you got both Kindred and some other clients that are strong in Sweden? Is that something you can comment on?

Kristian Nylén

*Chief Executive Officer, Kambi Group Plc*

A

No. We choose to not to comment – we choose to give you some guidance of the Norway at this point. But, I mean, no, I feel we shouldn't give you more guidance on this.

Rasmus Engberg

*Analyst, Svenska Handelsbanken AB*

Q

Okay. All right, thanks.

**Operator:** Thank you. There appear to be no further questions. I'll return the conference back to you.

Kristian Nylén

*Chief Executive Officer, Kambi Group Plc*

Thank you and thank you for your questions and for listening in. We look forward to updating you again on the 25th of July when we publish our second quarter results for 2018.

**Operator:** Thank you ladies and gentlemen. This does conclude today's conference call. Thank you very much for attending. You may now disconnect your lines.

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