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Kambi Group Plc (KAMBI.SE)

Q2 2018 Earnings Call

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MANAGEMENT DISCUSSION SECTION

Operator: Ladies and gentlemen, welcome to the Kambi Group Q2 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. Then afterwards, there will be a question-and-answer session. Speakers, please begin.

Kristian Nylén

Chief Executive Officer, Kambi Group Plc

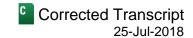
Good morning and welcome to Kambi's second quarter result presentation. I am Kristian Nylén, Chief Executive; and joining me is our CFO, David Kenyon.

Please turn to slide 2. In a moment, I will give you a brief overview of what was a busy second quarter, after which David will take you through the numbers. I will then speak about the quarter in a little bit more depth, including our preparations for the U.S. market and the FIFA World Cup.

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 inhouse developed platform which has been continuously developed over the last decade. The platform together with our 650 highly skilled staff forms a foundation of our service.

The Kambi Sportsbook consist of multiple elements from frontend user interface through to odds compiling, customer intelligence, risk management and customer empowerment capabilities, enabling our customers to offer their players the leading Sportsbook experience on the market.

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On to slide 4. Kambi's business is built around revenue share model with our growth dependent on our operators' success. The foundation of our strategy is based on scalability, and the majority of our cost base is fixed. At no additional cost to the operator, Kambi continuously invest in product, people, and technology to maintain market leadership. We also operate an experienced in-house trading and risk management team to optimize operator trading margin.

While our business is underpinned by our corporate probity and integrity, we are publicly listed, have successfully obtained all licenses [indiscernible] (00:02:32), and continue to avoid markets which prohibit sports betting. We now power 21 operators, including some of the most recognizable and successful brands in the industry.

Let's look at the quarterly highlights on slide 5. The second quarter was a strong one for Kambi. We posted revenues of €17.6 million, a 25% year-on-year increase. Operator trading margin for the quarter was 7.8%, a figure above our long-term expected average.

We added three new customers during the quarter. Following the full repeal of the federal sports betting ban in the U.S. in May, we signed U.S. operators Rush Street Gaming and DraftKings. I will give more detail on them later. In addition, we also added Romanian operators Stanleybet Romania at the beginning of the quarter.

Shortly after Q2, we signed ATG and Latvijas Loto, as well as extended our partnerships with Kindred and Mr Green. More on these later.

I will now hand over to David Kenyon, who will talk you through the financial highlights, turning to slide 6.

David Kenyon

Chief Financial Officer, Kambi Group Plc

Thank you, Kristian. Good morning, everyone. In Q2, we had revenue of €17.6 million, an increase of 25% from last year. Operating costs were €15.2 million, giving an operating profit for the quarter of €2.4 million. Our cash flow for the quarter excluding working capital movement was €1.9 million and our net cash position at the end of June was €27.9 million.

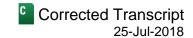
Let's look at the income in some more detail, turning to slide 7. This slide sets out what we call the Kambi Turnover Index. The graph shows the trends of the results generated by Kambi for its operators. The turnover has the total stakes placed with the operators by their end users on Kambi's sports betting service.

In Q2, we're seeing turnover plays with our operators up 11% on Q2 last year. The level of operator turnover was suppressed to some extent by the much stronger operator trading margin in Q2 this year due to the correlation between these two metrics. It's increased from 6.3% to 7.8% year-on-year. Some of the major football leagues also finished earlier than last year due to the World Cup which had some impact on the operator turnover this year.

It's in the nature of the business for the operator trading margin to fluctuate between quarters, depending on the results of sporting events. In recent quarters, we're seeing some subtle changes in this area which increased the margins and to some extent the volatility.

Notably, the addition of new player segments from new customer signings more betting on mobile and the move towards betting on higher margin products such as instant betting. As a result, we're changing our guidance for the expected long-term average for the operator trading margin to 6.5% to 8%.

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We can see the conversion from operator turnover growth to our revenue growth on slide 8. Operator turnover increased by 11% compared to Q2 2017. The operator trading margin, multiplied by the turnover, generates the operator's gross gaming revenue. The operator trading margin of 7.8% was well ahead of Q2 last year, leading to an overall operator GGR increase of 36% year-on-year.

Kambi's commission is based on a percentage of the operator's NGR. In the last 12 months, we have extended contracts with many of our largest operators for the long-term, representing over 90% of our existing revenue base. They've all grown significantly since their original contract signing, and the terms of the renewals generally reflect this growth. None is, in its own right material, but in aggregate, this has had an impact on our revenue conversion.

This along with the fixed part revenues is shown in the Other column of the graph. Additionally, in Q2 last year, we settled a contingent asset which resulted in a one-off income of €0.3 million, this is also reflected in the Other column. The net effect of all these factors is a revenue for Q2 2018 is up by 25% on Q2 last year to €17.6 million.

Let's turn to the income statement on slide 9. Operating expenses for the second quarter were €15.2 million. Operating expenses are forecast to increase in Q3 by 5% to 7% compared to Q2 as we continue to invest in the future to ensure we maintain our market leadership.

Additionally, there were increased costs for our regulatory and commercial efforts in the U.S. and non-cash accounting charges for our share option schemes. Overall in Q2, profit from operations is €2.4 million compared to €0.3 million last year. And profit after tax is €1.7 million compared to €0.1 million last year.

Now, let's look at the cash flow on slide 10. [indiscernible] (00:08:28) from this slide are the major components which impacted our cash position during the quarter. Our opening cash balance on the 1st of April was €36.3 million. Working capital decreased in the quarter by €2.4 million, reflecting an increase in trade [ph] debtors (00:08:45) as revenues increased at the end of the quarter due to the World Cup.

Capitalized development costs in the quarter were €2.4 million, while the amortization charge on previously capitalized costs was €2.1 million. The net cash outflow for the quarter was €0.7 million, and our closing cash balance was €35.4 million.

So, now let me pass you back to Kristian. Turning to slide 11.

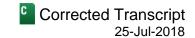
Kristian Nylén

Chief Executive Officer, Kambi Group Plc

Thanks, David. As I have touched on earlier, on May 14, the U.S. Supreme Court fully repealed with the federal sports betting wagering ban. This has generated an attractive business opportunity for Kambi. Since this decision, we have signed two major U.S. customers. We have applied for licenses in New Jersey and Mississippi and are in the process for New York, Pennsylvania, and West Virginia. We will also conduct U.S. Investor Road Show next week.

However, it's worth noting that the U.S. Supreme Court did not legalize sports wagering. It only passed the responsibility down to the state level. While some states have moved quickly towards regulated sports betting, others will take more considered approach. Estimates put the number of states likely to be regulated by 2023 between 25 and 42 states.

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With this in mind, Kambi's U.S. business would be view – should be viewed in the mid to long term. It's also worth considering that the retail establishment will hold the keys to gaining access to the sports betting market, as I will explain on slide 12.

I will now focus on two of the largest states in the U.S., which will soon launch sports wagering. In Pennsylvania, sports betting can only be offered through an exclusive agreement with a land-based casino, after a state regulator limited the number of sports betting licenses a casino can have to just one, making market entry all a more difficult.

However, Kambi will gain entry to the market through its recent deal with Rush Street Gaming which owns 2 of the states 12 casinos. Due to revenue tax of 46% and hefty operator licensee fees, no operator has yet applied for a sports betting license. But we expect these to change in the near future.

Meanwhile, current legislation in new York which is currently limited to retail only will cap the number of operators which can offer sports betting to just four commercial land-based casinos. Of those four casinos, one is owned by Rush Street Gaming while another has a deal in place with DraftKings, potentially handing Kambi 50% of a regulated markets with many other sports betting operators and suppliers likely to blocked out.

In both instances, land-based operators are an essential route to the market for all sports betting operators and suppliers, and we expect this reliance to continue as more states prepare for regulation.

Moving on to slide 13. Following the repeal of [indiscernible] (00:12:30), Kambi signed its first U.S. customer, Rush Street Gaming. Rush Street operates well across this growing online casinos in New Jersey as well as brick-and-mortar casinos in three key states, Pennsylvania, New York and Illinois, which as I explained will prove crucial to gaining access to sports betting market. Rush Street also has international plans and has already launched a Colombia-facing Sportsbook with Kambi.

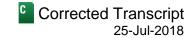
Turning to slide 14. In June, Kambi signed a deal with DraftKings, one of the most recognizable brands in the U.S. DraftKings is the largest daily fantasy sports operator in the U.S. with a database of around 10 million customers. DraftKings is on track to launch its online Sportsbook in New Jersey in Q3. We have other states also on the agenda. Its recently agreed a deal with Del Lago casino in New York or one of the four available sports betting licenses.

On to slide 15. At the start of June, Kambi launched three customers into three different jurisdictions within the space of just a few days. This was a great team effort and ensured all customers were up and running in time for the World Cup.

With Sun International, we launched in South Africa for the first time, while Stanleybet Romania and Rush Street Interactive went live in Romania and Colombia respectively, both taking bets within weeks of signing with Kambi.

And now on to slide 16. Our commercial momentum has continued into Q3. Kambi has already signed deals with ATG and Latvijas Loto, both significant customers for different reasons. ATG is a major customer win for Kambi. As a monopoly operator, it's one of the most recognizable brands in the Swedish market, with a large customer base, both retail and online. So I look forward to adding a Kambi Sportsbook to its trotting and horse racing products when the markets regulates in Q1 2019.

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We also signed our first state-owned lottery operator in Latvijas Loto. As well as the immediate benefit of launching with Latvijas Loto, we believe a deal will act as a good proof point when pitching for other state lotteries in the future.

These two deals mean Kambi has now signed 8 customers in the last 12 months. We have three customer signings in Q2 alone, a quarterly record for Kambi. This is a great achievement and shows relevance of our business model.

In addition, we have also agreed long-term contract extensions with Kindred Group and Mr Green. The Kindred deal gives Kambi long-term stability and a strong platform to build from. I look forward to continuing the successful partnership we have enjoyed over the years.

We also signed an extended deal with Mr Green, which we'll see its recently acquired Redbet move to its current supplier – from its current supplier to the Kambi platform. As a result of these renewals, Kambi has over last 12 months extended deals with key customers, securing more than 90% of existing revenues for the long-term.

Now to slide 17. Another major event in Q2 was the World Cup. The tournament proved to be a huge success for Kambi and our operators with turnover revenues and active players reaching all-time highs. Despite the increased load on our systems, there was no negative impact on our service, while our work in developing new markets such as play specials and extended extra time offer and the new penalty shootout model paid dividends. For instance, of all matches that went to extra time, those additional 30 minutes generated 37% of a match turnover, reflecting our market-leading extra time offer.

And as you can see from the chart at the right, it wasn't just in plays where we were leading, as our most prematch offer found it to be most extensive on the market with plenty of daylight between us and the second place.

Turning to slide 18, so to recap, the second quarter has been very positive for Kambi in many respects. Firstly, we grew revenues by 25% following a successful World Cup and new launches. We also continued our commercial momentum. We've made the customer wins in both U.S. and Sweden while we have also secured our first state lottery operator and reflecting our high-quality product, we signed an extended deal to Kindred and Mr Green, which will soon migrate its Redbet brand to the Kambi Sportsbook.

Thank you.

QUESTION AND ANSWER SECTION

Operator: Thank you. [Operator Instructions] And our first question comes from the line of Viktor Högberg from Pareto Securities. Please go ahead. Your line is now open.

Viktor Högberg

Analyst, Pareto Securities AB

Hi. Good morning. So, maybe we could start off with the margins and the sports bet turnover in Q2, given Kindred [indiscernible] (00:19:11) the strong margins in Q3, Q4, Q1 and – Q1 and Q2 affected the sports bet turnover. Are you worried about this? Could you maybe adjust your odds, maybe to put some money back into the operators count, or what is the strategy for this and not have a long-term effect?

Kristian Nylén

Chief Executive Officer, Kambi Group Plc

Hi, Viktor. No, I think the strong margin that is more because of the results, and I don't think we should adjust the paybacks because of that. As you may remember, we had a couple of tough quarters in the beginning of last year. So I think that's more a coincidence than anything else. And I think the big part here is not that the turnover isn't strong this quarter, it's rather that it was exceptionally strong a year ago when the margin was so low.

Viktor Högberg

Analyst, Pareto Securities AB

Okay. Thank you. So could you may be shed some light on the development in Q2 and the workout of our client base and over geographies? Was the growth broad-based, or could you say something about that?

Kristian Nylén

Chief Executive Officer, Kambi Group Plc

Yes. Of course, the World Cup in soccer is more or less a global thing. There are regions where it's less important. For instance, in Finland, I think ice hockey is much more important than football. But normally you can't say, but it's very broad, World Cup is very important in most markets. It will probably change slightly when we start operating in the U.S., though.

Viktor Högberg

Analyst, Pareto Securities AB

Okay. So you don't have any clients that have been doing badly during the quarter? Everyone was pretty decent, I guess?

Kristian Nylén

Chief Executive Officer, Kambi Group Plc

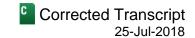
I can't comment on individual customers, but of course there are differences between the different customers. Some is doing better than others.

Viktor Högberg

Analyst, Pareto Securities AB



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Okay. So regarding the OpEx growth, you have guided for 5% to 7% in Q3 over Q2, but what about 2019 and 2020? I saw [ph] just an interview (00:21:55) with you, where you said it might be a couple of extra percentage points to add to the OpEx growth base, I guess, in 2019 and 2020. Could you elaborate on that [indiscernible] (00:22:09) to be expected, closer to 10% in 2019 or closer to 15% or...

David Kenyon

Chief Financial Officer, Kambi Group Plc



Yeah. Hi, Viktor. It's David. It's probably – I mean, it's a little bit absolute number [indiscernible] (00:22:21) given the situation in the U.S. where we're not exactly showing what the kind of rollouts on regulation is going to be. And, indeed, what that means in every single state for us, we need to talk to that on a state-by-state basis. So that will impact it to some degree.

And then, we've increased the percentage points for next quarter, probably up a couple of percent from where we've previously been guiding. And really that is driven by the initial, and the extra efforts we're making on commercial and regulatory in the U.S.

So, I'd say almost we need to kind of keep watching the guidance that we make for the short-term, and that will probably help with a slightly longer term [indiscernible] (00:22:56) want to see what the different states are actually requiring of us. Does that make sense?

Viktor Högberg
Analyst, Pareto Securities AB

Yeah, sure. A lot of moving parts.

David Kenyon
Chief Financial Officer, Kambi Group Plc

Yes.

Viktor Högberg
Analyst, Pareto Securities AB

So, could you say something about a possible effect [indiscernible] (00:23:10) from the Italy maybe or potentially running advertising from the middle next year. Will that affect your revenue base somewhat?

Kristian Nylén

Chief Executive Officer, Kambi Group Plc

Α

I would sure hope so. I guess - oh, sorry. Did I misunderstood the question, can you repeat the question.

Viktor Högberg

Analyst, Pareto Securities AB

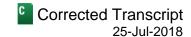
Yeah, Italy potentially banning advertising there from the middle next year. Will it have any negative effects on you guys?

Kristian Nylén

Chief Executive Officer, Kambi Group Plc

Yeah, exactly. So I surely don't hope so. No, but it may have some effect on us as well, of course. But Italy is not a very large market for Kambi at the moment, so it should have a limited effect on Kambi.

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Viktor Högberg

Analyst, Pareto Securities AB

Okay. Thanks. And regarding your Sportsbook margins ahead, you revised it upwards the range from 6.5% to up to 8%. From when do you expect that to be relevant? Is it already now or in a year from now, or...?

Kristian Nylén

Chief Executive Officer, Kambi Group Plc

No, it was like I communicated already in the last couple of quarters that we see some trends, and finally we added that to the guidance as well. So we expect that from now on, and I will say that you've already seen effect of it as well.

Viktor Högberg

Analyst, Pareto Securities AB

Okay. So it's already there. So regarding the U.S. and the operations that you are building out there at the moment, how much do you think, given current outlook, will you be able to scale your presence there with – from – between the two clients that you have already and potentially [ph] further clients (00:25:04), all else being equal? Do you think – would you have to add as much costs and [ph] presence (00:25:14) from a third client, or would it be really minimal incremental costs?

Kristian Nylén

Chief Executive Officer, Kambi Group Plc

Yeah, I mean, I think the cost is based on entering the U.S. market, then it doesn't really matter if it's one customer or 10 customers we're entering with as long as – if a third customer was entering all states, that is of course, so, I mean, the cost will primarily be driven by regulatory demands in formal of costs for licensing and costs for operating under the new licenses, specifically, we would probably have to have servers located within each and every states. We will also probably – we will also expand our U.S. offering. But again, it doesn't matter, if it's one customer, [ph] we get (00:26:15) 10 customers.

Viktor Högberg

Analyst, Pareto Securities AB

Okay. And one last question for me at the moment. Regarding Pennsylvania, no operator has applied for a sports betting license due to the tax rates. You said you hope this to change soon. Have you heard anything, or have you seen anything, or what do you – why do you expect it to change?

Kristian Nylén

Chief Executive Officer, Kambi Group Plc

No, it's very early still. So I would expect players to entering Pennsylvania as well. I mean, you can compare it to France. Even if it is a heavy tax burden, you want to have a position in large state like Pennsylvania.

Viktor Högberg

Analyst, Pareto Securities AB

Okay. But do you expect it to – do you have a known projection of when it would be a relevant market for you guys, what year?

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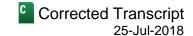
Kristian Nylén Chief Executive Officer, Kambi Group Plc	A
Yeah, I would expect it to happen something during this year.	
Viktor Högberg Analyst, Pareto Securities AB	Q
Okay. Okay. Thank you.	
Kristian Nylén Chief Executive Officer, Kambi Group Plc	A
Thank you.	
Operator: Thank you. Our next question comes from the line of Sharish Aziz from ahead. Your line is now open.	m Danske Bank. Please go
Sharish Aziz Analyst, Danske Bank A/S (Sweden)	Q
Thank you, operator. I do have a couple of questions. I'll start off with the Mr Gree extension of the contract. Just to comment on Mr Green's last acquisition, are you supplier of their latest acquisition as well.	
Kristian Nylén Chief Executive Officer, Kambi Group Plc	A
If you're referring to Redbet, we will.	
Sharish Aziz Analyst, Danske Bank A/S (Sweden)	Q
Yeah.	
Kristian Nylén Chief Executive Officer, Kambi Group Plc	A
And – yeah, as I said before, we're very happy about that. We – they have decide customers over to the Kambi platform as well.	d to migrate their Redbet
Sharish Aziz Analyst, Danske Bank A/S (Sweden)	Q
And when can we expect that to commence?	
Kristian Nylén Chief Executive Officer, Kambi Group Plc	A
That's a question for Mr Green really, but I would expect that to happen during au	tumn.
Sharish Aziz Analyst, Danske Bank A/S (Sweden)	Q

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Well, so would you expect revenues coming there from – I guess from Q3 or is there from Q4?	
Kristian Nylén Chief Executive Officer, Kambi Group Plc	A
Probably Q4 rather.	
Sharish Aziz Analyst, Danske Bank A/S (Sweden)	Q
Okay. The next question is on your largest client, Kindred, and their expansion into U.S. market. Any commer on whether you'll be the supplier there as well?	nts
Kristian Nylén Chief Executive Officer, Kambi Group Plc	A
I would expect so, yes.	
Sharish Aziz Analyst, Danske Bank A/S (Sweden)	Q
Okay. And when do you expect that to commence as well?	
Kristian Nylén Chief Executive Officer, Kambi Group Plc	A
Again, I mean, that's a question for Kindred. I can't speak about their business.	
Sharish Aziz Analyst, Danske Bank A/S (Sweden)	Q
All right. And then just looking into the U.S. signing of Rush, they have seen [indiscernible] (00:29:24). Will – a you expecting those to go enter other states besides one where they have license today? And just looking at Russia as a client, is a potential for them to double their size on sports revenues or 3 times the size?	
Kristian Nylén Chief Executive Officer, Kambi Group Plc	A
First of all, they have casinos in – physical casinos in three states plus that they do online in New Jersey.	
Sharish Aziz Analyst, Danske Bank A/S (Sweden)	Q
Yeah.	
Kristian Nylén Chief Executive Officer, Kambi Group Plc	A
It's really hard for me to sit and answer questions about operators. Even if I knew something, it would be not it their interest for me to sit and answer questions about their strategy publicly. I can't do that, unfortunately.	in
Sharish Aziz Analyst, Danske Bank A/S (Sweden)	Q

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Yeah. I guess you must have some kind of, I'd say – some kind of expectations, given the fact that they, in fact, are your clients.

Kristian Nylén

Chief Executive Officer, Kambi Group Plc

Yes. We do. But I can't comment on it.

Sharish Aziz

Analyst, Danske Bank A/S (Sweden)

Well, that's another case. All right. And then just lastly on the U.S. pipeline for Kambi, is it more prospering post those signings? What about more client contacts, any comments on that?

David Kenyon

Chief Financial Officer, Kambi Group Plc

So we have a commercial representation over that, so yeah, they're in the process of building out networks and making contacts. So, yeah, best efforts over there.

Sharish Aziz

Analyst, Danske Bank A/S (Sweden)

Okay. Thank you.

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

Thank you. Congratulations on the deal with ATG and DraftKings, and my first question is actually about DraftKings. They're obviously big in daily fantasy sports. Can you give us some – your idea of the conversion between daily fantasy sports and sports betting, even though the U.S. is a unique situation with sports betting being basically banned all over the country?

But what's your view on that? Is it easy to convert? Do you assume that basically any player that's in a daily fantasy player will convert into a sports betting player, or how do you view that? Are there any examples we can draw wisdom from and so on?

Kristian Nylén

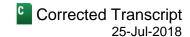
Chief Executive Officer, Kambi Group Plc

Unfortunately, I don't think there are any good examples to draw any conclusions from. But in my opinion, a lot of, yeah, daily fantasy, it's very similar customer base, to large extent. I think the conversion should be very high, and for many, I would guess that daily fantasy has been a substitute to fixed horse betting, because it was not available.

Dawid Myslinski Analyst, Redeye AB

Okay. And if you could give us a bit more flavor on the margin going up, the long-term margin, as you expected to be 8%, up from 6.5%. What are the trends leading to that change?

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Kristian Nylén

Chief Executive Officer, Kambi Group Plc

A

Actually, I mean, what we have worried is [indiscernible] (00:33:20) I mean, what we see and believe at the moment is that the margin will roughly – expect to be half a percentage higher long term than we have guided on before. And, yeah, it is the things David was talking about earlier here, higher conversions to mobile, more – especially new player segment coming in from some of our new customers and also more of the bets placed on a higher margin product than before. So, it's not anything we have done in terms of lowering our paybacks or anything like that. It's more that the players and how they use a product that have changed slightly.

Dawid Myslinski

Analyst, Redeye AB

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Okay. So, basically it sounds to me like it all sums up to more leisure players joining your player base basically.

Kristian Nylén

Δ

Chief Executive Officer, Kambi Group Plc

You can say that, yes.

Dawid Myslinski

Analyst, Redeye AB

Q

Yes. And you think that's also, for the profit level, this is optimal sort of payback ratio that you think it's the best going forward?

Kristian Nylén



Chief Executive Officer, Kambi Group Plc

We're always revising that, but I mean, if you look on the World Cup recently, Kambi offered very, very competitive paybacks on the main markets. So, I don't see any reason for us to increase the paybacks at any point.

Having said that, I mean, we have given our operators the opportunity to differentiate the paybacks, we've [indiscernible] (00:35:11) so to some extent, it's [indiscernible] (00:35:15) as well what paybacks they want to work with.

Dawid Myslinski



Analyst, Redeye AB

Yes, of course. Okay. So just a final question, who was the former supplier to Mr Green's Redbet acquisition?

Kristian Nylén



Chief Executive Officer, Kambi Group Plc

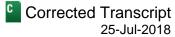
So that was SBTech. So, I mean, obviously, we are very happy to – for Mr Green to choose us as their supplier for both brands and – yeah, we are very happy about that.

Dawid Myslinski

Analyst, Redeye AB

Okay. I understand. Okay. Thank you very much. That's all from me.

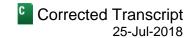
Kambi Group Plc (KAMBI.SE) Q2 2018 Earnings Call



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Kristian Nylén Chief Executive Officer, Kambi Group Plc Thank you.	A
Operator: Thank you. Our next question comes from the line of Christian I ahead. Your line is now open.	Hellman from Nordea. Please go
Christian Hellman Analyst, Nordea Bank ABP	C
Hi. Thanks. Question on the cost guidance that you mentioned before, 5% that including investments in the U.S. or is that the reason why you're revisi look upon that?	
David Kenyon Chief Financial Officer, Kambi Group Plc	Д
Yes, it's one of the main drivers, there's probably one other one which is no options, but I'd say the most – yeah, the other big one is in the U.S., and [in advisory fees and all the costs associated with our applications for the various but will carry on at full speed in Q3 and also kind of the commercial efforts various commercial efforts v	discernible] (00:36:37) really kind of ous licenses that were started in Q2,
Christian Hellman Analyst, Nordea Bank ABP	C
Okay. And for Q4, I mean, and also moving forward into 2019, is – we toucl get some more clarification on it if it's possible. Would you expect your sort sequentially over the next couple of three, four quarters? I mean, are you pe in the U.S. somewhere, or how should we look upon it?	of investments in the U.S. to increase
David Kenyon Chief Financial Officer, Kambi Group Plc	Д
I think at this stage, it's – we need to wait and see just a bit what the regular to have in states, in the given places. When the process – this calendar year looking at, so really, any cost growth or increase is going to be dependent of after that, but that's the kind of speed we're running at this year.	ar, it's probably five states that we're
Christian Hellman Analyst, Nordea Bank ABP	C
All right.	
David Kenyon Chief Financial Officer, Kambi Group Plc	Д
Which is already all the available licenses.	

Christian Hellman Analyst, Nordea Bank ABP

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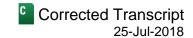
Yeah. Another question on the growth in the quarter, you posted 25% growth and you also mentioned that I think 19% growth came from the World Cup. So I guess, that means that the underlying revenue growth in the quarter was 6%. Can you comment a bit on that? Sort of, is that representative of sort of the market growth or do you have comments on sort of the underlying growth excluding World Cup [indiscernible] (00:38:20)?

Kristian Nylén Chief Executive Officer, Kambi Group Plc I would say, first of all, I mean, if you wouldn't have had a World Cup [indiscernible] (00:38:29) 19% would have been placed on other things. As an example, for instance, tennis has been much, much lower turnover this quarter than it was last year because of the World Cup. The fans are switching interest from other things into World Cup. Christian Hellman Analyst, Nordea Bank ABP Yeah. That make sense obviously. Kristian Nylén Chief Executive Officer, Kambi Group Plc Yeah. Christian Hellman Analyst, Nordea Bank ABP But could you give us some indication on sort of the underlying market growth for sports betting in Europe at the moment is it 10% or 15% or just sort of rough? Kristian Nylén Chief Executive Officer, Kambi Group Plc The H2 gaming capital, I think, is guiding on roughly 10% on a yearly basis. So that's the best estimate I have on the total market. Christian Hellman Analyst, Nordea Bank ABP Yeah. Okay. And then just on the customer pipeline, if you can sort of – previously you've commented on the pipeline as sort of being the best ever sort of wordings one or two quarters ago. And since then you've obviously you've churned the pipeline a bit with DraftKings and ATG. But what would sort of be your description of the pipeline at the moment? Kristian Nylén Chief Executive Officer, Kambi Group Plc Yeah, maybe not as good as it was a quarter ago, but still very good. I think more and more is opening up, and, I mean, yeah, the U.S. is obviously a very, very interesting market for us at the moment. Christian Hellman

Yeah. Final question just on LeoVegas. I mean, there were some comments previously on the fact that you're taking over Redbet from SBTech. But I just noticed that LeoVegas, their acquisition of Rocket X, which includes

Analyst, Nordea Bank ABP

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the BetUK.com, they recently partnered up with SBTech. So I'm just wondering why you're not doing the sports betting for Rocket X, which was acquired by LeoVegas?

Kristian Nylén

Chief Executive Officer, Kambi Group Plc

Α

Yeah. I can't really comment on that at the moment, because it was news for me as well. So, sorry, I can't comment on it.

Christian Hellman

Analyst, Nordea Bank ABP

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

Kristian Nylén

Chief Executive Officer, Kambi Group Plc

Α

Thank you.

Operator: Thank you. Our next question comes from the line of Erik Moberg from ABG. Please go ahead. Your line is now open.

Erik Moberg

Analyst, ABG Sundal Collier AB

Hi. In regard to your recent signings outside of the U.S. such as Stanleybet Romania, Sun International, and the Corredor. Could you give us some flavor regarding your market share potential, and what kind of impact they could have on 2021 and 2022 revenue?

Kristian Nvlén

Chief Executive Officer, Kambi Group Plc

Δ

Yes, I can give you some flavor. We usually don't talk figures. But I think especially Corredor, I think whereas in some official data, that the Colombia market is growing very fast, and I think as I communicated before, we strongly believe that Corredor has a very, very good potential of becoming a market leader in that market eventually. I don't think they are there at the moment, but I think they are in a good way to get there.

When it comes to Stanleybet, I think – I don't expect a huge amount of revenues coming from Stanleybet up until we [indiscernible] (00:42:23) in roughly a year's time from now.

Sunbet or Sun International, they had an existing Sportsbook before, so that should be an immediate impact on revenues from them.

Erik Moberg

Analyst, ABG Sundal Collier AB

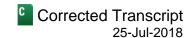
Okay. That's great. That's great flavor. In regard to Sun International, from what I understand, you only get contribution from Sunbet right now which is their online offering. But what's the status or the rollout of their retail product?

Kristian Nylén

Chief Executive Officer, Kambi Group Plc

A

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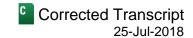


Yeah. I don't think at the moment they are doing very much on the retail, but I know they are interested in operating a larger chunk on retail as well. Also, we are looking into - they are owning casinos in a few countries in South America. So I also expect them to start operating there at some point. Erik Moberg Analyst, ABG Sundal Collier AB Okay. That's great. That's all from me. Thank you very much. Kristian Nylén Chief Executive Officer, Kambi Group Plc Thank you. Operator: Thank you. Our next question comes from the line of [ph] Richard Ritterburg (00:43:34), private investor. Please go ahead. Your line is open. Hi. Good morning. Kristian Nylén Chief Executive Officer, Kambi Group Plc Good morning. Yeah. So we have some previous questions about sports betting margin and here's another one. So you have mentioned some reasons why it'd go up, but I would assume it would go down since trends towards more live betting, i.e., more singles and less combination, but also the trend in the market with higher payback. Do you have any comment on that? Kristian Nylén Chief Executive Officer, Kambi Group Plc Yeah, I mean, that has been the trend over a long time, but I think at the moment, the trend is actually that live betting is not growing faster than – pretty much for us at least at the moment. I mean, this is probably the first time in many, many years that that is the case. I think when it comes to paybacks, that has been very stable over the last two years at least. It may change again, but at the moment, I don't really see pressure in us having [ph] assess (00:44:45) rates in the paybacks. I think we are on very competitive levels at the moment. Okay. Second question on how they have improved margins [indiscernible] (00:44:58) and limiting and short players, so?

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Kristian Nylén Chief Executive Officer, Kambi Group Plc	A
I don't think we have changed our way of working with players in the last seven or eight ye becoming even better at it, but there is new policies in place for a long, long time.	ears. Maybe we are
	Q
Okay. Thank you.	
Kristian Nylén Chief Executive Officer, Kambi Group Plc	A
Thank you.	
Operator : Thank you. Our next question comes from the line of Viktor Högberg from Pargo ahead. Your line is now open.	reto Securities. Please
Viktor Högberg Analyst, Pareto Securities AB	Q
Hi, again. Yeah, I'd just like to talk a bit about the start of Q3 year on [indiscernible] (.00:4 their revenues was up 30% year-over-year and FX adjusted. Of course, that's not fully corand some other aspects as well. But could you talk about the start to Q3 with the matches the World Cup?	mparable due to France
Kristian Nylén Chief Executive Officer, Kambi Group Plc	A
Yeah. I will not comment, but in general, I can say, obviously the beginning of July have neturnover than we had last year due to the fact that they have some of the most interesting World Cup in the beginning of the month, so that has an impact on the early start of the quantum contents.	matches left in the
The results, yeah, it was a few good draws in the playoffs, so that obviously has a good in imagine, France winning the final was probably not the best result, we could imagine. So, and some bad news, [indiscernible] (00:47:09) bad results in the beginning of Q3 and Wo would say that you should expect the turnover for the first half month of July to be much hyear.	we do have some good rld Cup. But all-in-all, I
Viktor Högberg Analyst, Pareto Securities AB	Q
Yeah, of course, and that to maybe fade out during the quarter	
Kristian Nylén Chief Executive Officer, Kambi Group Plc	A
Yeah.	
Viktor Högberg Analyst, Pareto Securities AB	Q

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...or at least until September. So could you talk a bit about – more about competition? I noticed SBTech signing some nice clients in the U.S. Have they took clients in front of your noses, or were you not in the talks, or could you talk about competition in general?

Kristian Nylén

Chief Executive Officer, Kambi Group Plc

A

Yeah, I mean, competition is fierce nowadays. We will, push or not, win our customers. Obviously, some of the customers that SBTech has been winning, we were also in talks with – the same as they were, surely in the talks with both DraftKings and Rush Street Gaming as well. So, I mean, that's how it is.

Actually, I think it's positive rather than negative that we have a good competitor nowadays, and I think the market is definitely large enough for both of us. But so far, I'm very pleased that we have been able to win our top targets so far.

Viktor Högberg

Analyst, Pareto Securities AB

Do you see any competition from American companies?

Kristian Nylén

Chief Executive Officer, Kambi Group Plc

Yeah. I think, so far, what we have seen, the competition has been – [ph] ITT (00:48:56) has been successful on winning deals. I think Scientific Games will probably also be a big player there, and then I think you will see a lot of deals that is more based on JVs with – or white-label solutions where I see companies like William Hill and [indiscernible] (00:49:26) also being successful.

Viktor Högberg

Analyst, Pareto Securities AB



Okay. Thank you. And just one last question regarding the U.S. and the sports betting margin. I guess you've thought about the U.S. market as well when you upped the range to 8%. Or what do you see in general for the U.S. population when they are betting? What do we expect in terms of paybacks and such? Would nice growth from the U.S., would that skew the expected range upwards or downwards?

Kristian Nylén

Chief Executive Officer, Kambi Group Plc



It's really hard to say. I mean, if you look on the existing betting that is going on in Las Vegas at the moment, they are more in range of 5% hold on their betting at the moment. But I would expect the Vegas betting to be much sharper in average than it will be when U.S. is opening up in other states. But it's hard to say at the moment what the margin will be in the U.S. And when U.S. becomes a significant part of our business, we may adjust the expected range again.

Viktor Högberg

Analyst, Pareto Securities AB



Okay. Well, thank you.

Kristian Nylén

Chief Executive Officer, Kambi Group Plc

А

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Corrected Transcript
25-Jul-2018

Thank you.

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

Rasmus Engberg

Analyst, Svenska Handelsbanken AB

Yes. Hi. I was wondering first if you could help us with some guidance for the tax rate perhaps this year and next year. What should we sort of think in terms of taxes?

Kristian Nylén

Chief Executive Officer, Kambi Group Plc

Yeah. I mean, the underlying corporate tax rate is going to be around kind of the 17% mark. There was a one-off annual withholding tax we saw this quarter that kind of skewed the number slightly this quarter. It's around 0.3 million of that 0.7 million on the P&L, but underlying corporation tax around 17%.

Rasmus Engberg

Analyst, Svenska Handelsbanken AB

Right. Okay. And then, secondly, on relating to taxes actually, but this VAT thing in Belgium that is now removed, I guess, could we see a situation where the tax impact in your sort of waterfall picture on revenue conversion that that is a positive? Is that what's going to happen or [ph] am I mistaken on that (00:52:10)?

Kristian Nylén

Chief Executive Officer, Kambi Group Plc

Yeah, there was actually still some kind of legacy effect. The VAT lasted [indiscernible] (00:52:17) or I think it was the end of May. So, I think in Q3, that should be slightly – yeah, it should be slightly more positive on that waterfall, and it [indiscernible] (00:52:26) will end up going forward we combine it with marketing. So, it was kind of – it depends on that level of marketing spend, but overall it should be slightly better, Q3 onwards.

Rasmus Engberg

Analyst, Svenska Handelsbanken AB

And this led for us very, very difficult, the growth thing, which is called Other volume-related commissions. Is it possible to say anything about that? If there are peak quarter and a top quarter in that figure, why should we think about it for the sort of Q3, Q4?

Kristian Nylén

Chief Executive Officer, Kambi Group Plc

Yeah, it's a good question, there's quite a lot in there now. It's capital one-offs license last year, but if we leave those to one side, I'd say, in quantum, that column is around €1.5 million that we're talking about here. I would say probably just over half of that is the combined aggregate of all our – of the effects of the contract renewals. So you're probably going to see around that level you see for the next – yeah, until they fall away [indiscernible] (00:53:28). So they're there for the next few quarters.

And then the rest really is driven by the growth of the business, so there we're talking kind of €3.4 million. And that's therefore – hopefully just keep growing to some extent, as long as our customers keep growing there.

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Corrected Transcript 25-Jul-2018

Rasmus Engberg

Analyst, Svenska Handelsbanken AB

Yes. Right. Good. Thank you. That's very clear.

Kristian Nylén

Chief Executive Officer, Kambi Group Plc

But you shouldn't see it in any particular quarter.

Rasmus Engberg

Analyst, Svenska Handelsbanken AB

Well, no. Good. And then just a final question. I think I know this question was sort of asked before, but as we model next year, and 19% of your revenues in the quarter are World Cup, obviously there is the crowding out effect of tennis, for example. But what is the kind of net effect, would you think? Is it like 3%, or is it 10%, or what is the positive benefit of a World Cup, really, to you?

Kristian Nylén

Chief Executive Officer, Kambi Group Plc

It's very hard to answer, but it's surely less than half, I will say. You also – I mean, you have the effect in May, for instance, where leagues are ending earlier because of the World Cup, for instance. So, yeah, I can't give you an exact answer, but I feel confident to say that it's less than half of the 19%, at least.

Rasmus Engberg



Analyst, Svenska Handelsbanken AB

Yeah. And for the third quarter, I guess, I mean, given the championship [indiscernible] (00:54:57), I guess that would also be kind of a – you should have a better Q3 this year than the normal year because of the World Cup, even though the League start later. Is that correct also you think?

Kristian Nylén



Chief Executive Officer, Kambi Group Plc



Yes, I mean, it should be slightly better because of the end of World Cup. I mean, you have - I don't know how many matches it was, seven matches or something like that. But that had a big impact of the guarter. But having [indiscernible] (00:55:30), I think it should be - yeah, you should consider it as a normal quarter more or less [indiscernible] (00:55:36).

Rasmus Engberg



Analyst, Svenska Handelsbanken AB

Yeah. And then just on the [indiscernible] (00:55:41) cost outlook. Is that more sort of staff or is it consultants and lawyers and staff for the U.S. or is it – how should we...

Kristian Nylén



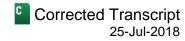
Chief Executive Officer, Kambi Group Plc

Yes. At this stage, it's really – it's more advisory and legal costs associated with the license applications. So...

Rasmus Engberg

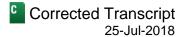
Analyst, Svenska Handelsbanken AB

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Yeah. Great. Good. Thanks. That's all from me. Thank you.	
Kristian Nylén Chief Executive Officer, Kambi Group Plc	A
Thank you.	
Operator: Thank you. And our next question comes from the line of Christian Hellr ahead. Your line is open.	man from Nordea. Please go
Christian Hellman Analyst, Nordea Bank ABP	Q
Hi. Just a few follow up questions. A question on the quarter sort of from a month-to comment a bit on May and June? I mean, June was obviously good with the World doing?	
Kristian Nylén Chief Executive Officer, Kambi Group Plc	A
That was more or less [ph] zero (00:56:41) growth quarter-on-quarter – year-on-year	ır.
Christian Hellman Analyst, Nordea Bank ABP	Q
Sorry. I didn't hear you.	
Kristian Nylén Chief Executive Officer, Kambi Group Plc	A
It was zero growth or it's possibly even slightly negative year-on-year with the League of these other impacts.	ues finishing earlier and some
Christian Hellman Analyst, Nordea Bank ABP	Q
Okay. Okay. Thank you very much. And then another question on, if we're looking in Operator Turnover Index, it only grew by 11% thanks to your high Sportsbook margishould we look into Q3? Will there be some spillover effect possibly with the Sportsbowere in Q2 or?	ins and whatnot, but how
Kristian Nylén Chief Executive Officer, Kambi Group Plc	A
It's – again, it's hard to say what the margin will be, but we've normalized margins, I than 11% at least.	would expect higher growth
Christian Hellman Analyst, Nordea Bank ABP	Q
Yeah. Yeah. Sounds reasonable. And then just a question, there was a question pre not you would go in with Kindred into the U.S. and you said that you would assume	-

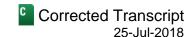
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888, they're also going into the U.S. Have you or can you say anything on whether or not you will enter the U.S. together with 888? Kristian Nylén Chief Executive Officer, Kambi Group Plc I'll give you the same answer there. I assume so. Christian Hellman Analyst, Nordea Bank ABP Okay. And then finally, just going back to Q2 again, some of your new clients, could you comment a bit on how much they contributed in the quarter like Sun for example, Stanleybet, the ones that you just launched, is it a few percentage points or is it nothing [indiscernible] (00:58:34)? Kristian Nylén Chief Executive Officer, Kambi Group Plc No, it's less than that. I mean, they were not even active for a full month. Christian Hellman Analyst, Nordea Bank ABP Okay. So it's less than a percent combined? Kristian Nylén Chief Executive Officer, Kambi Group Plc I don't have a number in front of me, but I would guess so, yes. Christian Hellman Analyst, Nordea Bank ABP Okay. Okay. Thanks. Thank you very much. Kristian Nylén Chief Executive Officer, Kambi Group Plc Thank you. Operator: Thank you. And as there are no more questions registered, I now hand back to our speakers for 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 October when we publish our third quarter results for 2018. Thank you.

Operator: This now concludes our conference call. Thank you for dialing in. Participants, you may now disconnect your lines.

Q2 2018 Earnings Call



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