

25-Oct-2019

# Kambi Group Plc (KAMBI.SE)

Q3 2019 Earnings Call

## CORPORATE PARTICIPANTS

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David Richard Kenyon

*Chief Financial Officer, Kambi Group Plc*

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## OTHER PARTICIPANTS

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## MANAGEMENT DISCUSSION SECTION

**Operator:** Ladies and gentlemen, welcome to the Kambi Group Q3 Report 2019. Today, I am pleased to present Kristian Nylén, CEO; and David Kenyon, CFO. For the first part of the call, all participants will be in 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 third quarter results 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 for Kambi. After which, David will talk you through the numbers. I will then speak about the quarter in a little bit more depth.

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, including web, mobile, and retail. Our service is managed from an in-house developed platform, which has been continuously developed over the last decade. The platform, together with more than 800 highly skilled staff forms the foundation of our service.

The Kambi sportsbook consists of multiple elements from front-end user interface and open APIs, through to odds compiling, customer intelligence, risk management, and managed services, enabling our customers to offer their players a leading sportsbook experience on the market from day one.

On to slide 4. Kambi's business is built up on a revenue share model with our growth linked to 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 operate and experience in-house trading and risk management team to optimize and operate the trading margin. And our business is underpinned by our corporate property and integrity. We are publicly listed and have successfully obtained all licenses we have applied for.

All of this combined enable us to offer operators the flexibility and scalability required to succeed in today's highly regulated and global markets. Our technology has been structured in a way that enables Kambi and its partners to quickly, and efficiently comply with a myriad of regulatory requirements, removing a major barrier to market and allowing them and the new markets as and when they required, with a high quality and localized sportsbook.

In total, we power more than 20 operators across six continents including some of the most recognizable and successful brands in the industry. Together, we create a powerful network of operators. This model enables Kambi, for instance, aggregate and analyze all data produced across the network which guides and informs our product development, ensuring we maintain market leadership.

The network effect also contributes to trading and risk management. We were a global coverage feeding in to delivery of sharper and more accurate prices. We have each and every operator added to a Kambi network that benefits are felt by all. And it's a major reason why our operators have been able to grow and become market leaders.

Let's look at the quarterly highlights on slide 5. In Q3, we posted revenues of €23 million, a 12% year-on-year increase. Despite a quiet sporting calendar, operator turnover was up 23% at an operator trading margin of 8.5%. And currently, operator turnover picked up significantly during the period, in line with the start of American football seasons, to the extent September was confidently the best month in our history, contributing 38% of operator turnover in Q3.

We signed two new customers in Penn National Gaming and JACK Entertainment, who I will speak about in more detail later. In total, we launched sportsbooks in seven casinos in the US, including taking the first legal sportsbook in New York with our partner Rush Street and launching on day one of the Iowa and the Indiana markets going live. Later, I will touch on our activities so far in Q4, which includes taking the first legal online betting in Indiana, as we continue to set the pace in the US.

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

## David Richard Kenyon

*Chief Financial Officer, Kambi Group Plc*

Thanks, Kristian. Good morning, everyone. In Q3, we had revenue of €23 million, up 12% from last year. For the first nine months, revenue was €65.6 million, up by 20%. Operating costs for the quarter were €19.6 million, giving operating profit of €3.4 million up 14.9%. Year-to-date, operating costs are €57 million and operating profit is €8.6 million at 13%. Our cash flow for the quarter, excluding working capital movements, was €2.6 million and the net cash position at the end of September was €34.2 million.

So let's look at the income in more detail, turning to slide 7. This slides sets out the Kambi turnover index. The graph shows the aggregated results of Kambi's operated. The turnover is a total stakes placed with the operators by their end users. In Q3, operator turnover was up by 23% on Q3 last year, including underlying growth from existing operators and for new operators in the U.S. and Sweden in particular. This growth is despite Q3 last year, including the final 14 matches of the 2018 Football World Cup, which contributed 7% of the operator turnover and

11% of the gross gaming revenue or GGR in that quarter. Excluding this World Cup effect, operator turnover growth was 33%.

In years with no Football World Cup or European Championship, Q3 typically experiences seasonality effects with a relatively quiet sporting calendar in July and the start of August, before the major European football leagues and NFL season start later in the quarter. We saw this in Q3 with 38% from the quarter turnover coming in September. The margin represents the combined trading margin made by the operators. In Q3, this margin was 8.5%. The operator trading margin fluctuates in the short-term due to the outcome of sporting events and the highest betting volumes in value. We can see the conversion from operator turnover growth to our revenue growth on slide 8.

Operator turnover was up by 23% compared to Q3 2018. The operator trading margin multiplied by the turnover, generates the operator's GGR. The operator trading margin of 8.5% compares to the 8.6% we saw last year. Overall, this led to an operating GGR increase of 21% year-on-year.

Kambi's commission is based on a percentage of the operator's net gaming revenue, which is after the deduction of gaming tax and certain marketing incentives. This tax impact has increased significantly, reflecting the increase in the part of our business coming from locally regulated markets including Sweden and the US.

We had a full quarter of retail and online business in Pennsylvania for the first time, where the state tax is 36%, and we also commenced operations in both Iowa and Indiana. In total, 73% of our revenues came from locally regulated markets compared to 53% last year.

The impact to the fixed part of our revenues and certain volume-related commission tiers is showed in the other column of the graph. This quarter, we've seen a marked effect from the increased revenues in [indiscernible] (00:09:17) packages which are fixed but not directly linked to the turnover growth. This effect is increased by the number of new operator signings since Q3 last year. The net effect of all these factors is that revenue for Q3 2019 is up by 12% from Q3 last year to €23 million.

Let's turn to the full income statement on slide 9. Operating expenses for the third quarter were €19.6 million. We continued to invest in building the market-leading sportsbook as well as the ongoing licensing and development for our commercial operations in the US. Our new office in Philadelphia is now operational with 20 staff currently, handling some of the risk management in US sports, local customer support, and some of the technical developments for the US market.

Looking forward to Q4, as we seek to capitalize on the commercial opportunities we see ahead of us, we anticipate sequential growth in operating expenditure of 3% to 5%. Operating profits were €3.4 million in Q3 compared to €4.2 million last year. The comparative period was boosted by the World Cup which contributed 11% of GGR for the quarter, directly increasing EBIT for that period. Operating profit for the year-to-date is €8.6 million. Profit after tax was €2.3 million for the quarter and €5.8 million for the year-to-date.

Now, let's look at the cash flow on slide 10. Set out in this slide are the major components impacting our cash position during the quarter. Our opening cash balance was €40.4 million. Capitalized development costs in the quarter were €3.4 million, whilst the amortization charge on previously capitalized costs was €2.5 million. Our trade receivables increased by €1.9 million, reflecting the increase in the amount of invoice to operators. The net cash inflow for the quarter was €1.1 million and our closing cash balance was €41.5 million.

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

## Kristian Nylén

*Chief Executive Officer, Kambi Group Plc*

Thanks, David. On August 1, Kambi signed an agreement with the largest regional gaming operator in North America. Penn National Gaming has tremendous market reach operating 41 gaming properties across 19 states, amounting to roughly half of the US population.

As you can see at the bottom of the slide, 8 of those 19 states are already regulatory in some form. Other states such as Ohio, Massachusetts, Michigan, and Maine are all progressing towards regulation. Within the space of a few weeks, Penn National was up and running with Kambi on properties sportsbook in Iowa and now has a total of five retail sportsbook across three states with Pennsylvania and Indiana the other two.

The most recent launch yesterday – was just this week when we replaced Penn Nationals incumbent supplier at Hollywood Casino in Pennsylvania. The online component will follow next year. There should be no mistaking the ambition of Penn National. They have a great record of venture building, have hired a fantastic team to lead the sportsbook, a plan to build their own IP on Kambi's platform, and are on record stating their goal to be the market leader in the US. Penn National quite rightly fought long and hard about their sportsbook strategy and I'm delighted they came to the conclusion their future was best served by partnering with Kambi.

Turning to slide 12. While Penn National is a national giant, JACK Entertainment is a local hero and a company where we were always keen to partner with. JACK is a household name in Ohio, one of the most popular states in US. Upon regulation in Ohio, Kambi will have a retail sportsbook at JACK Cleveland Casino and JACK Thistledown Racino. JACK, which currently has established online presence in the States, will also launch an online sportsbook. I'm very excited by the potential of JACK, and believe it can take a top position in Ohio. The partnership should extend to other states in the near future, should attractive opportunities arise.

Moving to slide 13. In addition to signing new customers, we also extended deals with two of our current customers. Of course, many of you have seen the contract extension agreed with DraftKings in August. The new terms significantly increased geographical reach of agreement to nine states. In the space of two months, Kambi has helped DraftKings launch online in Indiana and West Virginia, and owned property in Iowa, Indiana, and New York. Having already taken a strong position in New Jersey, we are now live with DraftKings in five states, with more to be added.

Elsewhere, we also renewed our agreement with NagaWorld in Cambodia, where we will continue to power the retail sportsbook at its two flagship casinos with an extended live package. NagaWorld was our first pure retail customer so I'm delighted to see us continue our partnership.

Now to slide 14. It was another busy quarter for customer launches, with more than a dozen in total. As I mentioned previously, Kambi recorded another first in the US when taking the first legal bet in New York with Rush Street. We also launched on day one of a regulated markets going live in Iowa and Indiana, and also supported Unibet with its first US launch with [indiscernible] (00:16:08) online. And later retail in Pennsylvania. In total, Kambi launched customers into six US states across online and retail, once more proving our operational excellence.

Turn to slide 15, we also continue to improve a product, our customers offer to their players. Kambi will only be successful in the long term if end users enjoy their US sports betting experience and keep earning to play. Accumulators are a popular bet type. They also attract recreational players and deliver good margin. This is why evolving accumulators has been a major focus for many Tier 1 sportsbooks in recent years.

Earlier this year, we launched Bet Builder which allows for in-game accumulators, and is now a hygiene factor for leading European sportsbooks. In Q3, we expanded on the capability of Bet Builder by launching Multi Builder, which effectively allows players to combine Bet Builders or invent combinations with other multiple or single bets even in the case of related outcomes. This gives players much more freedom to combine a greater range of selections into a single bet. What we are effectively doing is breaking down the barriers that exists when combining outcasts by putting more flexibility in our platform. As an example, you can see on the right a bet slip containing a free selection Bet Builder in last night's Arsenal match combined with an in-event combination in this morning's NFL game. We won the single prize offered. Almost everywhere else, this bet wouldn't be possible due to related contingencies.

Kambi is leading its peers in offering this functionality which has already proven to be popular among players despite minimal marketing.

Turning to slide 16. The momentum we built has continued into Q4. So far, we have completed seven separate launches including taking the first legal online bets in Indiana with Rush Street and DraftKings and launching in two Pennsylvania properties with Penn National Gaming.

Meanwhile, our achievements were recently recognized by the Global Gaming Awards where we were named Digital Supplier of the Year, up against companies from the sports betting and casino gaming verticals.

Turning to slide 17. Regulation and compliance is key to Kambi's success. One of our major strengths and while this is something we have long been focused on, the recent tightening of regulations in some countries, as well as the opening up of new regulated markets continues to create a complex global market in which to operate. For many companies the myriad of regulations are creating a barrier to entry, often delaying or completely ruling out expansion into new markets, largely due to inflexible technology, unable to comply with these regulations.

Meanwhile, we see [ph] helping (00:20:02) some companies fined and even withdraw from markets due to the introduction of more stringent regulations. One of the main reasons Kambi was created was because we recognized the spread of regulation would deliver greater complexity. So from the outset we built the technology and then instill processes which would give us and our customers a competitive advantage in this landscape.

Evidence of this can be seen over the past year or so. Where we have created a number of market first in the US, enabling our customers to be first to market and gain early market share. While also preemptively minimizing our exposure as a license holder to regulatory risk in countries such as US, Spain, and Sweden. Where there are varying restrictions of taking bets on events involving under 18s or local college sides for instance. When combined with this strong relationship we build with regulators often lending advice and sharing best practice. Our customers have been able to operate with confidence, safe in the knowledge with Kambi's excellent in all aspects of compliance is increasingly a competitive advantage.

Turning to slide 18. So to recap, Q3 was another good. Despite a quiet sporting calendar early in the period, September was our finest operator turnover month on record, which gives me confidence for the rest of the year and beyond. We signed two new customers in Penn National Gaming and JACK Entertainment, which gives us a strong position in Ohio, a major state in the US, and market access to states which make up around half of the US population.

Finally, our recent award win, the Global Gaming Award, cement our position as a global leader in sports betting provision and underlines the great 12 months both Kambi and its customers have enjoyed.

Now, I will pass over to the operator for questions.

## QUESTION AND ANSWER SECTION

**Operator:** Thank you. [Operator Instructions] And the first question is from Erik Moberg from ABG. Please go ahead. Your line is now open.

Erik Moberg

*Analyst, ABG Sundal Collier AB*

Q

Good morning, guys and congratulations on a good report. If we break down the business into three parts; your US business in one part and then you have new contracts in Europe and Latin America since late 2017 and during 2018, such as ATG and Corredor, National AD, et cetera. And then we also have [ph] your league as a (00:23:14) business such as Kindred, 888, and LeoVegas. How much do you think that the [ph] league as business (00:23:21) on a standalone basis will be able to grow into 2020? You do have a positive effect from Europe Championship in soccer. Do you think that this part can grow by double digits?

Kristian Nylén

*Chief Executive Officer, Kambi Group Plc*

A

So, just to reiterate the question, you're asking about the more established business if that can grow more than double-digit percentage.

Erik Moberg

*Analyst, ABG Sundal Collier AB*

Q

Exactly. It's a sort of Kindred, 888, LeoVegas. If we exclude for the US and then also new contract signings such as ATG, Corredor, National AD, etcetera.

Kristian Nylén

*Chief Executive Officer, Kambi Group Plc*

A

I would guess, double digit is probably a little bit ambitious for a more mature business at this point mainly due to all the recent regulations.

Erik Moberg

*Analyst, ABG Sundal Collier AB*

Q

Yeah. Fair enough. So now is it fair to assume more in line of say 5% to 7% sort of or?

Kristian Nylén

*Chief Executive Officer, Kambi Group Plc*

A

We haven't really broken down with the business, so I don't really want to give you a too detailed figure.

Erik Moberg

*Analyst, ABG Sundal Collier AB*

Q

Okay. Fair enough. Could you perhaps also give us an update on Corredor in Colombia's performance, if it's momentum continuing, did you grow on a Q-on-Q basis, and also how have the Q4 started?

Kristian Nylén

*Chief Executive Officer, Kambi Group Plc*

A

So, Corredor in Colombia has gone from strength to strength. I think they are the clear market leader in the Colombian market at the moment. And they have certainly grown quarter-on-quarter.

Erik Moberg

*Analyst, ABG Sundal Collier AB*

Q

Got it. And in terms of Latin America, could you perhaps just give us an update on the current roadmap in terms of regulation and also add some flavor in regards of the pipeline of new client within that region?

Kristian Nylén

*Chief Executive Officer, Kambi Group Plc*

A

So, I think it's some uncertainty at the moment. We certainly were very certain that something would happen in Buenos Aires when we talked last quarter. Now it's a new government probably coming in and that may slow down the rollout of a new regulations in Argentina. Brazil, we also expect something will happen, but no new news since last quarter. And I guess those are the two most important countries, of course, in Latin America. But we are also looking at other countries in the region. When it comes to sales pipeline, yeah, I think we have some interesting leads surely in Latin America.

Erik Moberg

*Analyst, ABG Sundal Collier AB*

Q

Fair enough. And in terms of Indiana, could you elaborate a bit on the start there and how you expect the market to ramp up?

Kristian Nylén

*Chief Executive Officer, Kambi Group Plc*

A

Yes. I think very, very positive thoughts. Still quite early days, but it's a sufficiently large state, so I have great hopes for Indiana.

Erik Moberg

*Analyst, ABG Sundal Collier AB*

Q

Got it. And in terms of JACK Entertainment, I mean, there is currently – there is approximately 12 million people who live in Ohio, so what sort of market position could we expect JACK Entertainment to take in Ohio and do you perceive JACK Entertainment to have similar potential as ATG has in Sweden?

Kristian Nylén

*Chief Executive Officer, Kambi Group Plc*

A

Probably not. I think ATG had a very unique position with having long, long monopoly for racing. What kind of market share JACK can gain, I think it depends a little bit on how the market access will pan out. But as I said, I mean, when it comes to retail casinos, they are one of the largest and most known brands. So, they should be able to take a good position in the market.

Erik Moberg

*Analyst, ABG Sundal Collier AB*

Q

Got it. And what do you think about their potential within online? Do you think they will be able to compete within the online landscape as well?

Kristian Nylén

*Chief Executive Officer, Kambi Group Plc*

A

Yeah. I hope so. I definitely think so. I mean as I said they have a very well-known brand and that is usually a good ingredient to take decent market share even online.

Erik Moberg

*Analyst, ABG Sundal Collier AB*

Q

Fair enough. Thank you very much, guys. That's all for me.

Kristian Nylén

*Chief Executive Officer, Kambi Group Plc*

A

Thank you.

**Operator:** [Operator Instructions] The next question is from Christian Hellman from Nordea. Please go ahead. Your line is now open.

Christian Hellman

*Analyst, Nordea Bank ABP*

Q

Hi. Thanks. Just a question on the US. Can you please perhaps share something about the size of your US business currently? Is it around 10% of revenues in Q3, a little bit less, a little bit more, but I'm thinking it's in that region, but is it possible to say something about that in terms of numbers quantifying it?

David Richard Kenyon

*Chief Financial Officer, Kambi Group Plc*

A

Hi, Christian. We have [indiscernible] (00:29:10) fully splits out all the geographical sources of the revenues. It's something we're looking to substantially for next quarter onwards. But yeah, I mean, everything is of course, broadly disclosed in the US and yeah, it will take you on the right track with those estimations you make.

Christian Hellman

*Analyst, Nordea Bank ABP*

Q

Okay. And you stated that 38% of your turnover was generated in September. Is that sort of – can we sort of equate that to around 38% of your revenues? I understand that it depends perhaps on the sportsbook margin in the different months, et cetera, but everything equal so to speak?

David Richard Kenyon

*Chief Financial Officer, Kambi Group Plc*

A

Yeah, that's a fair. I mean, yes. Everything else being equal? Yeah. So that would – yeah that works, yeah.

Christian Hellman

*Analyst, Nordea Bank ABP*

Q

Perhaps that's a leading question but if you again this sort of view the numbers that means that you did close to €9 million in revenues in September. I guess you can sort of if you cripple that, you should be doing at least €26

million in Q4. Again given that sort of the sportsbook volume stays roughly the same or is there something we should sort of take into account perhaps...

[indiscernible] (00:30:32)

Kristian Nylén

*Chief Executive Officer, Kambi Group Plc*

Yeah.

A

Christian Hellman

*Analyst, Nordea Bank ABP*

It's quite strong in Q4 last year?

Q

David Richard Kenyon

*Chief Financial Officer, Kambi Group Plc*

Sure I mean let's say you know obviously this quarter we've seen a very high margin 8.5%. So yeah, that fairly counts on that for the full Q4. The other thing is the sporting calendar does tail off slightly towards the end over Christmas the football seasons across Europe and the leagues facing downtime. So yeah, a pure extrapolation doesn't [indiscernible] (00:30:57).

A

Christian Hellman

*Analyst, Nordea Bank ABP*

Okay. Okay, and last year the sportsbook margin was quite strong as well wasn't it?

Q

David Richard Kenyon

*Chief Financial Officer, Kambi Group Plc*

In Q4 yes.

A

Christian Hellman

*Analyst, Nordea Bank ABP*

Yeah. And then which and sort of just to sort of understanding US which clients are sort of ramp – will ramp up a lot in Q4. Would you sort of look at their list efficiently communicated plans and I'm thinking about [indiscernible] (00:31:29) and DraftKings in particular. I guess those are the two big ones [ph] income (00:31:34) substantially for you in the US but how should one think about sort of what you've done in September which is sort of the first month of really a lot of sports betting activities in the US and sort of how these clients of yours in the US have sort of expand operations in Q4?

Q

Kristian Nylén

*Chief Executive Officer, Kambi Group Plc*

Yes. So, as I stated, I mean there has been a lot of new launches in the US during the latter part of the quarter. When it comes to DraftKings, I mean they are live now in both West Virginia and Indiana online which I would believe is the largest chunk of the revenues. You can probably see something happen in one or two more states as well.

A

For the others, I think Penn National, I mean they are live in three states with retail casino. But as we've stated in the report, nothing will happen on the online side until somewhere next year.

Christian Hellman

*Analyst, Nordea Bank ABP*

Q

Okay. And the relative sort of your own expectations on September if you just look at sort of the turnover statistics that have come out from New Jersey and also from Pennsylvania when the NFL season kicks off, obviously it was a huge uptick versus August. But versus your own sort of internal expectations, what's your sort of view on how the US sports betting season is ramping up now with all the leagues getting on?

Kristian Nylén

*Chief Executive Officer, Kambi Group Plc*

A

Yes. I mean traditionally, even in Europe, I think you will see the same pattern in US. October-November are the two strongest months of the year, sporting calendar-wise. NBA, the second largest league in the US, started last week. So, from a – yeah, yes, activity-wise, when it comes to sports, Q4 is a significantly better quarter than Q3.

Christian Hellman

*Analyst, Nordea Bank ABP*

Q

Yeah. And [indiscernible] (00:34:04) I'm thinking about September, just looking at those numbers. Were those numbers better or a bit below your own sort of thoughts, ahead of the numbers, so to speak?

Kristian Nylén

*Chief Executive Officer, Kambi Group Plc*

A

I don't think we were very pleased with the numbers for September. Very much in line with our thoughts, I would say.

Christian Hellman

*Analyst, Nordea Bank ABP*

Q

Okay. Okay. And then, just finally on sort of customer pipeline going forward, obviously, Penn National is a huge signing for you. But if we look at what's your sort of feelings about the customer pipeline at the moment from the US but also for Europe, I know the G3 conference was in Vegas a few weeks ago and I guess I love the deals and whatnot are made during those days in Las Vegas. But how's the pipeline looking at the moment?

Kristian Nylén

*Chief Executive Officer, Kambi Group Plc*

A

I think it looks very promising, very pleased with the exhibition in Las Vegas. So, I mean, I think there are – yeah, a lot of good opportunities. I think though the kinds of Penn Nationals there are not very many or if even any multistate operators left on the market at the moment. So I think you will see more kind of these JACK Entertainment rather than Nationals going forward.

Christian Hellman

*Analyst, Nordea Bank ABP*

Q

Okay. Thanks. And just a final question on sort of the competitive landscape for you as a B2B supplier. I don't know the exact state [indiscernible] (00:35:56) but there's rumors of it being up for sale and it goes a bit back and forth. How does that sort of impact you from – when negotiating with potential clients? I guess that should be sort of a relative positive for you or...

Kristian Nylén

*Chief Executive Officer, Kambi Group Plc*

A

Yeah. I mean it would depend very much on what kind of buyer is, of course. I would assume that if the buyer is an operator, our operators would be less inclined to stay as a customer with a competitor. So...

Christian Hellman

*Analyst, Nordea Bank ABP*

Q

Yeah. And also signing I guess if they don't know what's happening...

Kristian Nylén

*Chief Executive Officer, Kambi Group Plc*

A

Exactly.

Christian Hellman

*Analyst, Nordea Bank ABP*

Q

... [indiscernible] (00:36:40). Yeah.

Kristian Nylén

*Chief Executive Officer, Kambi Group Plc*

A

Exactly.

Christian Hellman

*Analyst, Nordea Bank ABP*

Q

But have you felt that?

Kristian Nylén

*Chief Executive Officer, Kambi Group Plc*

A

At the moment, I think we are in such a strong position anyways. I mean, what we have delivered so far in US is taken very, very positively. And if you look at our competitors and what market shares they have been able to gain in competitive markets, it's quite a wide difference at the moment. So I think we already have a very, very strong position in the US.

Christian Hellman

*Analyst, Nordea Bank ABP*

Q

Okay. Thank you. Thank you. That was it for me.

Kristian Nylén

*Chief Executive Officer, Kambi Group Plc*

A

Thank you.

**Operator:** And we have one more question, and it's from Viktor Högberg from Danske Bank. Please go ahead. Your line is open.

Viktor Högberg

*Analyst, Danske Bank A/S (Sweden)*

Q

Hey, guys. So I have a question on the organizational expansion. You have employees now at some 830 people. Could you elaborate how that translates into the 3% to 5% operating increase into Q4 and what the implications for 2020 might be?

David Richard Kenyon

*Chief Financial Officer, Kambi Group Plc*

A

Yeah. If you look at kind of what we've done in the last quarter, we're up around 50 versus what we reported last quarter. As I mentioned, we're fully operational – not fully operational but operational in Philadelphia with around 20 staff. The rest, some in IT development but the majority of the rest is traders in our [indiscernible] (00:38:14) offices. As we increase the number of live events offering and also our US college sports offering. So I think given that that pattern, yeah, we translate them to numbers and obviously different cost levels in different parts of the business translates into 3% to 5%.

I think looking forward, we haven't yet given our guidance for next year. We'll probably do that on the back of the Q4 report. But at the moment, we're just making the right level investments to capitalize on the US opportunity and we'll continue to do that. So it could be around a similar level, I would estimate, at this stage.

Viktor Högberg

*Analyst, Danske Bank A/S (Sweden)*

Q

Okay. So a 3% to 5% sequentially into 2020 as well maybe. Could I ask, also you reiterate the sports margin wins that you expect over time of 6.5% to 8%. It was a long time ago we saw the low end of that range. Could you elaborate something about the structure of the market since like European margins are structurally higher? And is this range relevant going forward?

Kristian Nylén

*Chief Executive Officer, Kambi Group Plc*

A

It's a very good question, actually. We are doing further work now to see where we think the margin should be going forward. There's been a lot of new introductions of the high-margin products such as Bet Builder and now Multi Builder that impacts the margin upwards. And then, the big question for us is still – I mean, we have always thought that the US margin would be lower. So, that is a big uncertainty for us, where should the long-term average be for the US market. So, I think we will probably come back either to give you a reiteration of the current stand or changes in the next quarter review.

Viktor Högberg

*Analyst, Danske Bank A/S (Sweden)*

Q

Yeah. Okay. So, assuming US margin is a couple of percentage points lower, the US is around 10% now. A decent company in the US is going to take some years for that to make a dent in the group margin. So, coming years, the upper end of that range would be [indiscernible] (00:40:55), I guess?

Kristian Nylén

*Chief Executive Officer, Kambi Group Plc*

A

I would wait to do a conclusion on that until we come back with our studies on this.

Viktor Högberg  
*Analyst, Danske Bank A/S (Sweden)*

Q

Okay. Well, thanks.

Kristian Nylén  
*Chief Executive Officer, Kambi Group Plc*

A

Thank you.

**Operator:** Okay. So, we have one more question from Lars-Ola Hellstrom from Pareto Securities. Please go ahead. Your line is open.

Lars-Ola Hellstrom  
*Analyst, Pareto Securities AB*

Q

Hi, guys. First of all, just a clarification on the cost side. Looking on other costs if sequentially lower, in fact the lowest level since Q1 2018 while employee staff costs jumps quite a lot. Is there a reclassification of the cost, because you're still guiding for 3% to 5% sequential OpEx growth in total. So, just between those lines, is there a reclassification?

David Richard Kenyon  
*Chief Financial Officer, Kambi Group Plc*

A

Hello. No, no, no reclassification. It's just more kind of a bit of a seasonal pattern in terms of our costs. So, we have use a little bit less on the IT consultants during the summer. There's also a bit less travel and also some of the marketing events are more actually around Q1 and Q4 in particular and there's a little bit in Q2, a bit less in Q3 on the marketing events, our marketing costs we incurred. That's why other is actually down.

In terms of the staff costs, it's a few different things, but there were bonuses related to customer signings. It's some additional NII costs for share options and there's the increase in stuff that I had sort of talked about. I think overall, yeah, we're still seeing 3% to 5% next quarter. And perhaps it might shift back to slightly more normal split between staff and other within that 3% to 5%.

Lars-Ola Hellstrom  
*Analyst, Pareto Securities AB*

Q

Okay. Thank you. And can you give us some flavor on the margin in October. We're listening to the call of Kindred and it seems like at least in Europe the margin has been quite similar in the first 23 days in October to last year. Have you seen the same thing for...

Kristian Nylén  
*Chief Executive Officer, Kambi Group Plc*

A

So, yeah, we choose not to give any guidance from our side. But obviously, Kindred is still a very large chunk of our business. So, I guess you can at least for a large chunk of our business, make some assumptions based on Kindred's comments.

Lars-Ola Hellstrom  
*Analyst, Pareto Securities AB*

Q

And my final question about operated turnover index, you said it was the strongest month in September when it was really, really high. Of course, in the US, the NFL is starting as well but is this a broad based pick-up in activity in the legacy business in Europe as well including the Netherlands?

Kristian Nylén

*Chief Executive Officer, Kambi Group Plc*

A

Oh yes. I mean you have to remember that I mean the whole soccer season – European football season, I mean there is nothing going on in June and July. So I mean all leagues except in Scandinavia is starting in August. So – but it's definitely an uptick. I mean September is the first month where we have a full activity in various football leagues in Europe as well.

Lars-Ola Hellstrom

*Analyst, Pareto Securities AB*

Q

And more specific, you have seen strong activity coming back in Netherlands as well even though it has been some kind of restriction on the payment method as well.

Kristian Nylén

*Chief Executive Officer, Kambi Group Plc*

A

I can't comment on one single country. But obviously, yeah, the Dutch players are very much into football. So, you can draw your conclusions from that.

Lars-Ola Hellstrom

*Analyst, Pareto Securities AB*

Q

Yeah. Thank you.

**Operator:** And there are currently no further questions. I'll hand the call back to the speakers for any closing comments. Please go ahead.

Kristian Nylén

*Chief Executive Officer, Kambi Group Plc*

Thank you for your questions and for listening in. We look forward to updating you on the 12th of February 2020 when we publish our fourth quarter results for 2019.

**Operator:** And this now concludes the conference call. Thank you all for attending. You may now disconnect your lines.

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