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# Kambi Group Plc (KAMBI.SE)

Q1 2021 Earnings Call

## CORPORATE PARTICIPANTS

**Kristian Nylén**

*Chief Executive Officer, Kambi Group Plc*

**David Richard Kenyon**

*Chief Financial Officer, Kambi Group Plc*

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## OTHER PARTICIPANTS

**Erik Moberg**

*Analyst, ABG Sundal Collier AB*

**Viktor Högberg**

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

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## MANAGEMENT DISCUSSION SECTION

**Kristian Nylén**

*Chief Executive Officer, Kambi Group Plc*

Good morning and welcome to Kambi's First Quarter Results Presentation. I am Kristian Nylén, Chief Executive; and joining me is our CFO, David Kenyon.

Please turn to slide 2. I'll begin with a brief overview of what was another impressive quarter across the board. David will then take you through our financial performance. I will then speak about the quarter in a little bit more depth and look ahead to a busy sporting calendar this summer.

But first, on slide 3, let me give you a brief introduction to Kambi. Kambi is the industry's trusted and independent sports betting supplier. Our multichannel service is managed through an in-house developed platform, which has been continuously developed over the last decade. The platform, together with more than 900 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 and risk management, enabling our customers to offer their players a tailored and a leading sportsbook experience from day one.

On to slide 4, Kambi's business is built upon a revenue share model, with our growth linked to our partners' success. The foundation of our strategy is based on scalability. At no additional cost to our partners, Kambi continuously invests in product, people and technology to maintain market leadership.

We operate an experienced in-house training and risk management team to optimize operator trading margin, and our business is underpinned by our corporate probity and integrity. And we have successfully obtained all the licenses we have applied for. All of these combined enable us to offer our partners the flexibility and scalability required to succeed in today's highly regulated and available market.

Our technology has been structured in a way that enables Kambi and its partners to quickly and efficiently comply with regulatory requirements, removing a major barrier to market and allowing them to enter new markets as and when they require.

Kambi is a trusted partner of more than 30 operators across six continents, including some of the most recognizable and successful brands in the industry. Together, they create a powerful network of operators which combine to generate powerful data insights that we use to inform and continuously iterate our product and services.

Let's look at the highlights on slide 5. Q1 was another record quarter for Kambi. Operator turnover reached an all-time high, exceeding the 1,000 mark on the index for the first time. Thanks predominantly to an increase in basketball and in particular college basketball, and the March Madness tournament, as well as various launches in [ph] new states (03:39).

Revenue was up 55%, while operating margin was again a very healthy 43%, underlining the scalability within our business model. Our US and global expansion continued. We've launched in states including Michigan and Virginia online and Arkansas in retail, in the process registering the 14th US state in which we are live.

We also made our debut in Argentina with Casino Magic. And as previously communicated, we signed two new partners during the quarter, with Racing & Wagering Western Australia joining Casino Magic by partnering with Kambi in January.

For now, I'll hand over to David, who will take you through the financial highlights, turning to slide 6.

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## David Richard Kenyon

*Chief Financial Officer, Kambi Group Plc*

Thanks, Kristian. Good morning, everyone. In Q1, we had revenue of €43.2 million, up 55% from last year. Operating costs for the quarter were €24.5 million, giving an operating profit of €18.7 million at a margin of 43%. The net cash position at the end of March was €70.7 million.

Let's look at the income in more detail. Turning to slide 7, this slide sets out the Kambi turnover index, with the graph showing the aggregated results of Kambi's operators. The turnover is the total stakes placed with the operators by their end users.

In Q1, operator turnover was up by 109% over Q1 last year. At this point, I should note that all comparatives to last year as I mention today, the final two weeks of Q1 2020, so the early impact of the pandemic on the supporting calendar which obviously limited the levels of activity at the tail end of that quarter.

The steep growth we've seen in operator turnover reflects the growth of the markets in various US states such as Pennsylvania, New Jersey, and Indiana, the opening up of new states in the last year such as Illinois, Colorado, Michigan and Virginia, and the busy sporting calendar. This includes most of the March Madness college basketball tournament, all the main European soccer leagues and the conclusion of the NFL season. The margin represents the combined trading margin made by the operators. In Q1, this margin was 8.5%.

You can see the splits of operator GGR by region on slide 8. Q1 saw continued growth in operator GGR in the Americas region, with 63% of the total. In particular, Q1 saw its launch for the first time in Virginia, Arkansas and Michigan online. In January, 888 migrated the majority of its business away from the Kambi platform. Despite this,

we saw growth in the European parts of the business, with the operator GGR up by 15% on the same quarter last year.

You can see the conversion from the movements in operator turnover to our revenue on slide 9. Operator turnover post foreign exchange impact was up by 109% compared to Q1 2020. The operator trading margin was 8.5% compared to 9.3% last year. So the increase in operator GGR was 93%.

In the other column, we see the marked effect from the rapid growth in operator NGR in terms of decreasing the effective commission rates charged to our operators due to the tiered structures in many contracts. The net effect to the revenue for Q1 2021 was up by 55% from Q1 last year to €43.2 million.

Let's turn to the full income statement on slide 10. Operating expenses for the first quarter were €24.5 million, up from €21.1 million in Q1 last year. Looking ahead to Q2, we anticipate costs will be in the range of €25.5 million to €26.5 million.

The operating profit for Q1 was €18.7 million, up from €6.8 million in Q1 last year. The results this quarter continue to demonstrate the scalability in the business model. While costs grow in a controlled manner, as we continue to build out the company's product capabilities and commercial reach, the large majority of the cost base is not directly impacted by an increase in revenue.

So when revenues go up, as we saw to such a great extent here in Q1, the inherent operating leverage results in increased profitability. The profit after tax for Q1 was €15.1 million up from €4.8 million.

Now let's look at the cash flow on slide 11. Our opening cash balance was €60.8 million. The significant cash inflow from our operating profits translated into a major increase in our cash balance in the quarter.

Capitalized development costs in the quarter were €4.5 million while the amortization charge on previously capitalized costs is €3.6 million. The net cash inflow for the quarter was over €17 million and our closing cash balance €78.1 million.

This gives us a powerful position from which to benefit from our balance sheet, giving us the ability to be opportunistic if growth possibilities arise. In summary, we saw strong revenue performance in Q1 and the company's operating leverage delivered a significant increase in profitability.

So, now, let me pass it back to Kristian, turning to slide 12.

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## **Kristian Nylén**

*Chief Executive Officer, Kambi Group Plc*

Thanks, David. If anyone was in any doubt over the popularity of March Madness tournament and the US college sports in general, then this slide should go some way to remove those doubts. For those who are not aware, March Madness is an annual US college basketball playoff tournament, which was unfortunately postponed last year.

Its return this year provided a boost to operator turnover and so college basketball became the number one driver of turnover during the quarter. In fact in Q1, college basketball generated as much turnover as the NFL and NBA combined. While some of the final games were played in April, March Madness turnover exceeded both the 2018 World Cup and last season's NBA Playoffs, with our partners offering a top class outright pregame and live

product. As you can see from the graph, the number of games played compares well with those of the tournament.

Turning to slide 13, as mentioned earlier, we continued to support our partners expansion plans with timely rollout. During the quarter, this included going live with Casino Magic in the Argentina province of Neuquén, Arkansas becoming the 14th US state to go live when launching with Churchill Downs at the Oaklawn Racing Casino Resort, launching five partners into the new online Michigan market with four on the same day, and supporting two partner launches in Virginia. In addition to these, we also supported the online launch of Barstool Sportsbook in Illinois and further Churchill Downs online retail launch.

Turning to slide 14, the partner launches have continued into Q2. Yet last week, we supported a trio of online launches for Churchill Downs at its TwinSpires ground. The three launches over four days took place across Indiana, Pennsylvania and Colorado, and ahead of this weekend's iconic Kentucky Oaks and Derby.

As to horse racing in that ground, the Kentucky Derby provides a great opportunity for TwinSpires to attract and cross-sell players to its new Sportsbook product. The launches see the TwinSpires Sportsbook available online in five states, adding to the earlier launches of Michigan and Tennessee. Of course, additional launches are planned in the future.

Moving to slide 15, we often talk about partner launches and this is due to the fact we're proudly prolific in this area. At Kambi, we see the expansion of our partners as being central to our growth story. The better we're at providing our partners with a platform for growth, the better the results for all concerned. And I believe Kambi has repeatedly proven itself to be the trusted sports betting partner, highlighted here by our track record in partner launches.

Since the start of 2020, Kambi has on average enabled a partner launch every single week across many different jurisdictions and regulations across the world. This record is no coincidence and is testament to internal capability we have built throughout [ph] the both (14:04) experience over many years.

Whether that's through our technical flexibility or product and regulatory compliance, or our operational excellence, we have shown time and again that partner integrations and launchers need not take long time to compete.

What's more in this has largely taken place during the period of travel restrictions, which has made retail launches a little bit more problematic. However, last year, we were able to develop remote launch process, meaning Kambi staffs wouldn't have to be present on property, essentially giving our partners the capability and freedom to manage their own launches at the time which suits them best.

Turning to slide 16, the sporting calendar very much dictates how our partners interact with their players. As we found last year, fewer sports means less revenue. Yet, some of the major events we saw postponed last year will see taking place within coming months, which in many ways have created a special summer for all sports for this year.

There's a lot on this page and I won't to go through it all. But as you can see, the calendar looks particularly busy and this only gives a flavor of what to come throughout the rest of the quarter and into Q3.

The highlight from an operator turnover perspective is likely to be the Europe, which I'll talk more about in a moment. One specific week that I'm looking forward to July 10 and 11, where you see both the finals of Euro and Copa America as well as the Wimbledon final, not to mention the NBA playoffs.

Of course, while the summer months featuring many summer tournaments that have historically been the highlight of the year in terms of turnover, Kambi's recent group in the United States now means a much higher bar has been set throughout the rest of the year, particularly during Q1 and Q4 quarters. Nevertheless, for sports fans, particularly those in Europe, there will be no shortage of betting opportunities to look forward to.

Turning to slide 17, the European Championship is probably the highlight of the tournament, at least for European betting perspective. The event is being staged across Europe for the first time, which could work to increase interest in the tournament.

Major soccer tournaments have historically been fantastic player acquisition opportunity for operators. For example, the 2018 World Cup attracted more than two-thirds of first time bettors during the tournament, with around 90% of those going on to place the second bet.

The tournament also coincides with Copa America giving soccer bettors a full menu of games throughout the day. We believe this will see additional interest in our multi-builder product, by allowing players to combine multiple selections from different games, including player [indiscernible] (17:52).

In general, Kambi offers a fantastic soccer product across pretty much on live. Combined, we will advance price differentiation and marketing capabilities. Our partners can be confident of providing their players with top tier experience during these important competitions.

Moving to slide 18, to summarize, Q1 was another fantastic quarter for Kambi, with record operating turnover and continuing to demonstrate the scalability of our business model. We continue to sign new partnership and expand with our existing partners, setting the standard for new market launches.

When combined, this ongoing success means we have further strengthened our balance sheet, providing us with even greater opportunity to grow, to expand and to ultimately provide an even better service to our partners.

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

## QUESTION AND ANSWER SECTION

**Operator:** Thank you. [Operator Instructions] Our first question comes from the line of Eric Moberg from ABG. Please go ahead.

**Erik Moberg**

*Analyst, ABG Sundal Collier AB*

Q

Hi, and thanks for taking my questions. To start off, if we just look at the turnover and we just divide it up on a regional basis of Europe, Americas and then other, could you perhaps elaborate a bit on the start of Q2 versus the end of Q1 for each region?

Hello?

**Kristian Nylén**

*Chief Executive Officer, Kambi Group Plc*

A

Sorry, I was muted. I think you will see now, I mean the calendar in US is slowing down a little bit. So I think what you will see with Q2 is certainly a strong new quarter for Europe and for US. Latin America is more in line with the European betting pattern.

**Erik Moberg**

*Analyst, ABG Sundal Collier AB*

Q

Got it. And while around the subject, as you mentioned, you listed you have a negative seasonality effect there in Q2. But how should we think in terms of the dynamic here, because like Europe obviously have – will see a boost from the French Open in tennis and the Euro championship in soccer. If we think about how this would translate for the full group, do you still think that you could maintain the current turnover level and an extension of revenue going into Q2?

**Kristian Nylén**

*Chief Executive Officer, Kambi Group Plc*

A

I would guess that we are peaking in Q1, and will have slightly lower turnover in Q2. But it is a little bit uncharted territory for us with what will happen in the year. We have a big year soccer tournament at the same time as the US being dominant market for us.

**Erik Moberg**

*Analyst, ABG Sundal Collier AB*

Q

Got it. And looking into the second half of the year, you have a potential launch there in October with – in Netherlands with JVH group. Could you perhaps elaborate a bit on what sort of position you think you can grab within that market?

**Kristian Nylén**

*Chief Executive Officer, Kambi Group Plc*

A

They are a very strong retail brand. But I mean we have seen both very, very good transitions from recently into online and we have seen not so great. So it's way too early for me to have a good insight into that, Erik.

**Erik Moberg**

*Analyst, ABG Sundal Collier AB*

Got it. But just hypothetically speaking, do you think that they could have a similar impact as ATG had in Q1 2019?

Q

**Kristian Nylén**

*Chief Executive Officer, Kambi Group Plc*

No, I would be very surprised on them starting that high. You have to remember that ATG was a very strong online brand in other gaming verticals.

A

**Erik Moberg**

*Analyst, ABG Sundal Collier AB*

Fair enough. And just looking at Americas, I mean the division continues to increase substantially. We're naturally all aware about your US position. But could you perhaps elaborate a bit on Latin America and the drivers there? Is it still primarily Corredor in Colombia or are there any other actors that are sort of behind the ramp up in growth?

Q

**Kristian Nylén**

*Chief Executive Officer, Kambi Group Plc*

I would say we have two partners that are quite strong in Colombia. Corredor of course is a market leader, but I think Rush is doing quite well as well. And that is definitely a majority of revenues at the moment. But I mean Colombia is the only market that really has been regulated so far, and we expect to see great things to come in Argentina – yes, going forward now and hopefully Brazil in future.

A

**Erik Moberg**

*Analyst, ABG Sundal Collier AB*

Fair enough. Thank you very much. That's all from me.

Q

**Kristian Nylén**

*Chief Executive Officer, Kambi Group Plc*

Thank you.

A

**Operator:** And the next question comes from the line of Viktor Högberg from Danske Bank. Please go ahead.

**Viktor Högberg**

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

Hi, good morning. So a follow-on question on the turnover index, as you commented on the Q2 level potentially being a bit lower than Q1, and due to the now high US exposure. What about Q3 with the sporting calendar looking as it does currently, do you expect a sequential uptick in Q3 over Q2 or to remain at roughly the same levels or below?

Q

**Kristian Nylén**

*Chief Executive Officer, Kambi Group Plc*

I guess this will depend a little bit also on the [ph] drafting (24:51) how they are transitioning to their own sportsbook. Of course, we have revenues coming from there up until September, but it – those revenues if it's transition will not have any impact on the turnover index. But all things equal, I would say that we would definitely

A



think that Q3 will be on a lower level than Q1. And then – I mean it's only really September where you have a strong US sports month in Q3, and then I think Q4 will really ramp up again.

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

Q

Yes. Okay. So on the OpEx guidance, you reiterated for the full year [ph] starts now (25:54) in Q2. What good sense the OpEx outlook for this year, upside or downside?

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

A

Hi. It's David. I'm sure there's an element we've highlighted in the past, it's in the variable costs related to our options program. I think that's part of the one really variable cost of linked share price. So I mean that's the one that could potentially screens up or down. But, yes, apart from that, I think the cost is quite foreseeable from our perspective. So, yes, probably towards the top end of that guidance, but yes that – we're so happy with that guidance for now.

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

Q

And in the cost mix, could you elaborate a bit about the drivers there? You are continuing to hire a lot of people, and do you think that will [indiscernible] (26:47) somewhat, or do you expect to continue adding 50, 60 people year-over-year or also down the line this – during end of this year, or what to expect in terms of hirings?

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

A

Yes. For the foreseeable future, we will kind of continue hiring at that kind of level. Obviously, we paused recruitment for around a year during the height of the pandemic. So, yes, we're kind of catching up now to where we were expecting to be previously. So therefore now we are recruiting.

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

Q

Okay. And...

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

A

We'll see what it goes up to end of quarter.

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

Q

Yes, sure. So and with 888 rolling off, majority of their revenues from you now, how much did that affect Q1, could you comment on the revenue effect or turnover effect?

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

A

I can't – we can't give you an exact number due to confidentiality reasons with our partners, but yes, I mean it's – from our perspective, it's very pleasing that we can deliver such great results, despite the loss of share, majority of that business share. That's all I can say really.

**Viktor Högberg**

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

Q

Okay. And final question for me, because I had a bit cut off from you, so I don't know if you already talked about it, but what do you make of the New York movement and what to expect. What do you expect now that you've got a bit more detail on it?

**Kristian Nylén**

*Chief Executive Officer, Kambi Group Plc*

A

I think it's still well too early to give any big predictions. From what we made out over the last answers we have got, it's still very unclear. I mean [ph] they say (28:48) it's minimum two platforms. I think from that perspective, a platform seems now to be defined as where the bet placement is done, which means that would fit in our technology. So that's very interesting to us.

But I mean, how many platforms there will be, two or three is probably the likely number and how many schemes can be on each platform is still very, very unclear. So I think we have a play position here, but it's way too early to guess.

**Viktor Högberg**

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

Q

Okay. So, will you submit anything ahead of the 1st of July deadline [indiscernible] (29:48)?

**Kristian Nylén**

*Chief Executive Officer, Kambi Group Plc*

A

Yes.

**Viktor Högberg**

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

Q

Okay. And last question from me. US or Americas now 63% of revenues. How much of that is US?

**David Richard Kenyon**

*Chief Financial Officer, Kambi Group Plc*

A

A large majority, okay.

**Viktor Högberg**

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

Q

So, well above half of revenues?

**David Richard Kenyon**

*Chief Financial Officer, Kambi Group Plc*

A

Yes, that's correct.

**Viktor Högberg**

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

Q

Okay. Thank you very much.

**Operator:** And as there are no further questions, I'll hand it back to the speakers for any closing remarks.

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## Kristian Nylén

*Chief Executive Officer, Kambi Group Plc*

Okay. So, thank you very much for the questions and for listening. We look forward to updating you on the 23rd of July, when we publish our second quarter report for 2021.

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