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Kambi Group Plc (KAMBI.SE)

Q4 2021 Earnings Call

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MANAGEMENT DISCUSSION SECTION

Mia Nordlander

Senior Vice President-Investor Relations, Kambi Group Plc

Good morning, everyone. My name is Mia Nordlander. I'm Senior Vice President, Investor Relations. And today I'm here with our CEO, Kristian Nylén; and our CFO, David Kenyon, and they will present our Q4 2021 results. After the presentation, you will be able to either call in your questions through the telephone conference or write your question in the web chat here.

But first, start over to you, Kristian.

Kristian Nylén

Chief Executive Officer, Kambi Group Plc

Thank you, Mia. So, yeah, please get jumped up. So, yeah, we will go through first the highlights, as usual, and then I will hand over to David for a short while to go through the financial highlights, and then I will come back and talk a little bit more about Kambi.

So, you can take the next slide. I'm extremely pleased with the performance we have shown in Q4. Talking about headwinds, I think this has been probably the toughest comparable we have ever had. We're comparing two quarter where we lost in Q4 2020. We had the top three operators according to our annual report, was about 64% of our revenues, and that was the DraftKings, that is not with us anymore. It's 888, where we have lost the majority of revenues. And it's, of course, Kindred that we will talk more about later.

But, for us, their most important market, Netherlands, we have not got any revenues in this quarter. And on top of that, we also have still quite a good margin in 7.8%. But compared to a year ago, it's roughly 18% worse. And still, we're coming in – we have quite a good result and still showing a great operating margin of 20%.

Of course, the big event for us at the moment is just announced on Tuesday where...

Unverified Participant

[indiscernible] (00:02:31-00:02:36)

Kristian Nylén

Chief Executive Officer, Kambi Group Plc

Sorry. It's some sound coming in.

Unverified Participant

[indiscernible] (00:02:39)

Kristian Nylén

Chief Executive Officer, Kambi Group Plc

So, in – yeah, sorry for that. Yeah. So the big news coming out Tuesday night, where we had two news in the same press release. First of all, we extended our partnership with Kindred until the end of 2026. And, of course, for us, that is really important. It shows that we will have financial strength for another three years, up until the end of 2026. And, of course, it also gives some more transparency about our relationship with our largest customer for the long-term.

On top of that, we also announced that we now have met the financial targets to be able to pay the convertible bond at our own discretion. If and when that will happen, we don't know at this point. But now, we have full control over that situation. Together, these two events, I think, creates a very strong foundation for Kambi and gives us full control how to plan our strategic direction going forward.

Other news during quarter, we have signed five new partners in Q4 and in the beginning of 2022, which illustrates our market-leading position in North America. And finally, we have gained the license in New York State, and in early 2022, we also launched in the state of New York. So, that's obviously one of the largest states in the US. So, a great achievement for us.

With that, I'm handing over to David and I will come back later.

David Richard Kenyon

Chief Financial Officer, Kambi Group Plc

Thank you, Kristian. I'm really pleased to present some strong financial results for Q4, albeit it's up against some tough comparatives which I'll give you some more detail of shortly. But, firstly, the Q4 numbers. So, €34.9 million in revenue. We had OpEx of €27.8 million this quarter, giving an operating profit of €7.1 million, a very healthy margin at over 20%.

If you take the next slide, it would give you the full-year figures. So, revenue for the full year was €162.4 million, up from €117.7 million last year. And I think we can be really proud of that 38% increase in the face of losing the business of DraftKings at the end of Q3. I think 38% is a very healthy growth number there. In terms of operating profit, we saw the scalability of our business model really shining through again this year, with operating profits up

from €32 million to €57 million, a 77% increase. And this year, at an operating margin of over 35% versus 27% last year.

On the next slide, we have the turnover index, which is an analysis of the underlying operator performance, which really makes – builds up our revenue model. The blue columns you see here is the aggregated operator turnover on an index basis. We set that index on 100 when we first listed back in 2014. And the line is the aggregated operator trading margin, which you can see fluctuates quarter-by-quarter depending on the sporting results.

It's very typical seasonal pattern for us that Q4 is a strong sporting calendar. It's a pattern we've seen throughout as you look back through the years and the quarters. And, obviously, we have a full quarter of the major European soccer leagues, and also in the US, the American football and basketball season is in full swing. And this contributed to a 32% sequential growth in Q3.

If you look at versus Q4 last year, we are down 23%. But I think that some of the key factors that Kristian touched on, which we should flesh out a bit more to actually see the underlying growth of the business. So, firstly, there's DraftKings, major customer of ours, which transitioned away in full by the end of Q3. And 888, which transitioned a large part of their business away in the early part of this year. And the third factor really is the Netherlands where we have key operators currently applying for license in the new regulation, which started effective October this year. So, I think adjusting – you need to adjust for those three major factors if you want to see the underlying growth of the business, and adjusting for those gets to an underlying growth in operator turnover of 38%.

Let's go back, Mia, to the last slide. The operator trading margin this quarter recovered really from what we – I think we commented in the Q3 results, but it had started in a weak fashion. I'd say the start of October was a weak margin, but it did recover through the quarter and we ended up at 7.8% for the full quarter, up against a very tough comparative 9.4%, which was unusually high. And we'll see that now on the next slide when we look at our revenue growth.

So, this is the conversion from the operator turnover growth to our revenue growth. Normally, so there's maybe a waterfall, but obviously this is now starting from a negative so that everything looks slightly upside down to how we normally present. But – so the operator turnover was down 23% as discussed and the lower trading margin versus that tough comparative meant that operator GGR was down by 37% year-on-year. However, this was offset to quite a significant degree by a couple of other factors as shown here in the other column. The lower GGR compared to last year meant that we actually saw a slightly higher effective commission rates which supported – which kind of props up our revenue growth here. And also, we had income both from Abios and other various fixed revenue streams, which are not directly linked to the level of operator turnover. That pushed up our revenues to some degree. And the net effect was a 26% decrease in revenue versus Q4 last year.

Moving finally to the balance sheet, we remain in a very strong position in terms of balance sheet with almost €80 million in cash in the bank and a cash inflow outside of financing and working capital movements of almost €5 million. And we're very pleased to have completed our first share buyback program during the quarter with €12 million. And I'd say the balance sheet remains in excellent position to really support both our organic growth and further acquisitions in the future.

And with that, I'll hand back to Kristian.

Kristian Nylén

Chief Executive Officer, Kambi Group Plc

Thank you, David. Yeah. So, before I go on in more detail about Q4, I just want to give – take a look at the highlights of 2021. So, yeah, we recorded a 38% rise in the full-year revenues. We acquired the esports company, Abios. During year, we signed eight new partners across the globe. We completed 60 on-property and online launches. We had a Euro which was an amazing tournament again and set a turnover record for a summer soccer tournament. And with Maryland, we completed with 18 US states in which Kambi has launched. So, in total, I would say it's a really, really good year.

And now I will continue on with Q4. So, first, I mean, just to give you a reminder, we're banging on about our strategic pillars. And today, I will update on the development on a few of them, starting with a technically advanced core platform on the next slide. Mia?

So, I think one thing we have talked about since the Capital Markets Day and throughout a few of the quarters after is what we're doing to try to modernize our platform in a larger degree. I think our current setup, we have a fully managed service. I mean it's great for many operators and I think it will be a cornerstone in our revenues for years to come.

But we also believe that there is an opportunity for us to – for those who have a fully managed service, give them an even better service by opening up our platform for some other services. And maybe more importantly, we also believe that we can use some of our services to operators who already have a platform to increase the market we have opportunity to target.

With this, I think we can also gain even higher operational efficiency. If we cut out some elements and let other players in the market do things that our operators require, but maybe we feel it's not that relevant for us to do, I think it gives us an even greater opportunity to provide an absolute best service to our operators. And for years to come, I think this will give us an absolutely amazing opportunity to expand our market share and make our existing operators much, much more happy.

Let's go to next slide and talk a little bit about product. Oh, sorry, that was the wrong order. Also, I wanted to talk more about what we have done when it comes to launches. I mean we are doing so much for our customers and creating more and more opportunities. So, during this quarter, we expanded our US reach into three more states, Connecticut, Louisiana and Maryland. We became the first provider to launch in the city of Buenos Aires and the province of Buenos Aires.

We launched with BetCity and JVH in Netherlands after the re-regulation. I think that has been a great success and we obviously hope for more operators to soon be able to rejoin in Netherlands. And in Australia, we have begun our rollout across a massive network of retail agencies for the Western Australian racing and we soon will be up and running in 320 agencies.

Can go to the next one. When it comes to product, I think we have been talking quite a lot about Bet Builder in the last couple of quarters and we will keep on doing so, because it has become an absolute key product for any operator when it comes to sports betting. We have already had great success with soccer, of course, during this season on American football both when it comes to the NFL and the college football. I think we have had an absolutely amazing product that has taken quite a large chunk of all the sports betting revenues coming from American football.

This product, I think, is definitely market-leading. And I will show you a little bit later on next slide, but we are the only one – not yet, Mia – we are the only one who are able to do combinations between events still. And I think this is something that we will see more and more the usage of when we are able to launch more sports choice.

And I think with that, we can go to the next slide. As you can see here, we are ticking all the boxes, of course, where [ph] shows announced (00:16:34) compared to our competitors. But this is not the end of it. We just launched the ice hockey both in the Scandinavian leagues and the NHL. And we are quite alone on that and this will obviously be a very key feature going live in Canada as well. For the baseball season, we plan to be ready in time for the first match in April. And then we will also roll this out for the basketball in the start of the next season. And as we can see here, of NFL wagers, 25% is coming from Bet Builder.

Next slide, Mia. In Q4, we made three new signings to further strengthen our presence in the US market. First up, Desert Diamond which I think is the largest tribal casino operator in Arizona and the one we identified, but we really wanted to sign in Arizona outside of our existing partnership.

Then we also signed Soaring Eagle in Michigan. I think not such a large opportunity for us, but I think this opportunity has shown very fruitful for us when it comes to relationships in the tribal community in the US, so very pleased with that.

And, finally, Affinity Interactive, which I think has a very good chance of becoming a strong player in the US market. They are the owner of iconic US-facing Daily Racing Form brand, which is the number one content and data provider for horse racing players. So, very pleased with all of these signings.

And thank you. Next slide. I touched on it before. We were awarded one of a quite few licenses in the US state. So, now, we have a 10-year Mobile Sports Wagering Platform license in New York. Kambi was a primary applicant on one of two successful bids. And we have one of the partners in that bid was Rush Street Interactive, which we will operate in the US markets. With population of more than 20 million, New York is the largest state so far to regulate mobile betting. And so far, it looks like it will be an enormous market. It's very much driven by bonuses yet. So it will take some time to see how the market will pan out, but obviously very exciting for us.

Next slide. In Netherlands, we have seen a re-regulation, which has changed the market somehow from the beginning. And we managed to go live with a new partner of ours for day one, BetCity, who has been very, very successful so far in the Dutch market. And shortly after, JVH gaming also followed. So, we're very pleased with the market share we have in the Netherlands at the moment. But, of course, we are definitely hoping and waiting for our existing partners, of which few of them had a very, very strong market share in the Netherlands market to also be able to start operate again in the Netherlands.

Next slide, please. After Q4, we have done another two signings in North America. First of all, Carousel Group, which is operating the brand MaximBet. Maxim is, of course, quite a large media brand in the US. I think they have a circulation of our magazine of – yeah, quite a big number, roughly 1 million. And we're currently live with an in-house platform in Colorado and will switch to Kambi technology. And we're also set to launch Kambi in at least five additional US states and Canada. So, this can be a great opportunity for us going forward.

In Canada, we also have signed NorthStar Gaming. And that is borne out of the Torstar Corporation, which is the owner of the largest media in Toronto, the Toronto Star. Again, I really hope this can be one of the largest brands in Ontario, and we expect to go live when the Ontario market opens up in April.

Next slide, please. Coming back to the announcement from Tuesday evening. So, we did a contract extension with our long-term partner Kindred up to the end of 2026. So, it's a three-year extension of the contract, adding to the two years we have left of a contract from before. We will, of course, remain an integral part of Kindred's sportsbook and I'm very, very pleased to get this deal done. I think it's so important for us to have the ability to

show the financial strength of doing this signing with our largest operator. And also, it gives us a great visibility of the future going forward with Kindred.

In addition to this, we have also achieved the financial goals set out in the convertible bond, which means that we, when we feel for, can repay the convertible bond. Obviously, the convertible bond, it's quite an unusual instrument, and it has some impact on the option value of Kambi, of course. So, from an investor point of view, I'm very pleased to be able to announce this now. But more importantly, for us, working in Kambi, of course, is that it takes away a few operative restrictions. So, we have more freedom and some easier work with, yeah, how we want to operate Kambi going forward and take the strategic decisions we feel is right for Kambi.

So, to summarize the quarter, again, I think we had a very strong performance, which rounds off a record financial year. We are growing our global presence with our market-leading product and now we have full control over our strategic direction going forward. Thank you very much for that.

Mia Nordlander

Senior Vice President-Investor Relations, Kambi Group Plc

Thank you very much, David and Kristian. Now I think we have time for questions. First, we will take the telephone questions, but you can also write them in the chat window. But over to you, operator.

QUESTION AND ANSWER SECTION

Operator: Thanks. [Operator Instructions] Our first question comes from Oscar Rönnkvist with ABG. Please go ahead.

Oscar Rönnkvist

Analyst, ABG Sundal Collier AB

Good morning, Kristian, David, and Mia. So I have four questions. The first one is regarding your cost guidance. Can you give us some details about what is driving a 24% increase in total operating costs looking at your midpoint guidance? Also, now that the DraftKings are gone and Penn is probably leaving in 2023, do you expect a need to increase head count in 2023?

David Richard Kenyon

Chief Financial Officer, Kambi Group Plc

Yeah, I can take that. Thanks for the question. Yeah. I mean, I think the first point to make is the acquisition of Abios, which we obviously made towards the end of 2021, and that stand-alone is going to drive the cost increase of approximately €4 million, right, on the operating expenses but also the amortization on the goodwill on the acquisition. So, that's kind of a one-off difference versus 2021 that we'll see in 2022.

So, on a more broad basis, we are continuing our cost growth as we have because we're building out the product. So, that cost really generally entails continued head count increase, particularly in the tech part of the business to keep developing the product, to make it sellable, to keep – to really take advantage of our competitive position and just keep selling the product and we keep on building it.

We also have a growing amortization number on the back of growth in those development costs over the past few years. We have continued licensing costs. We're going to keep on going for all possible licenses, US, Canada,

Latin America and wherever else we see commercial opportunities. They do come with costs, but of course a revenue opportunity as well.

And one other cost factor that's driven by kind of the growing customer base with all these new signings is the data supplier costs where we have an increase in costs with each new operator, but equally we recharge those costs on. So, there's a revenue increase as well.

So, I think – I hope that gives a bit of a picture. I think apart from the Abios one-off type step-change in cost level, it's really in line with where we've been going in the past and really that is to keep building this market-leading product.

Oscar Rönnkvist

Analyst, ABG Sundal Collier AB

All right. Thank you for that. Yeah.

Q

David Richard Kenyon

Chief Financial Officer, Kambi Group Plc

And I'd say – you asked about – does the loss of customers affect that? I'd say honestly, no, because we want to keep selling and keep winning new customers and we wouldn't do that if we stop spending. So...

A

Oscar Rönnkvist

Analyst, ABG Sundal Collier AB

Yeah. Fair enough. Next question, you recently announced that the convertible can be repaid. Hence, Kindred cannot, again, for example, block a potential bid on Kambi anymore. What has been your feedback from current clients about this? Aren't they afraid of you getting acquired by an operator? I mean let's say Rush Street, for example, it could be a very tricky situation for them and either they maybe should rush to you for a prolonged contract or else develop their own sportsbook. Do you have any comments that can be really helpful here?

Q

Kristian Nylén

Chief Executive Officer, Kambi Group Plc

I think it can go both ways. But I think for most customers, the independence to Kindred is probably more important for them than – that we don't have a convertible bond to protect them. I mean compared to any other company in the industry, I think we were the only one who had this kind of instrument in place. And I think actually what I have heard and the few conversations I have had, we're definitely not seeing this as a negative.

A

Oscar Rönnkvist

Analyst, ABG Sundal Collier AB

All right. Understood. Next one, can you talk about the modular strategy? Are you in talks with any Tier 1 operators and how could such contracts look like? Is it more of a revenue share model with a lower take rate or is it rather a subscription model?

Q

Kristian Nylén

Chief Executive Officer, Kambi Group Plc

So, I think, I mean, we're still very early in this. I think we have some more work to do. But I can see both this being fixed cost model or a rev share model. And I think it will probably – best-case scenario, we'll see something late this year, but probably not until next year when we start building results.

A

Oscar Rönnkvist

Analyst, ABG Sundal Collier AB

Q

All right. So, just a follow-up there, like the modular strategy, has it been your plans all along or is it a result of your top clients maybe leaving you?

Kristian Nylén

Chief Executive Officer, Kambi Group Plc

A

So, I think we started talking about it on the Capital Markets Day last summer, well before we knew anything about Penn, of course. So, it has always been a part of our strategy. And I mean you have to take the steps sequentially. You can't do everything at the same time. And for many years, it has been way more important for us to build up in a business that is suitable for the US market. And last year, we felt that, okay, we can take the next step in our journey and start figuring out how we can start making our product more flexible. So, it has – probably beginning our plans for many, many years, but I think last year was a time when we felt we could start looking at it.

Oscar Rönnkvist

Analyst, ABG Sundal Collier AB

Q

All right. Got it. Next one, in terms of commission rates from a client such as Kindred, for example, can you give us some ballpark numbers of how much you expect the commission rate will decrease in relative terms from 2024 and onwards as they are putting some of it in-house?

Kristian Nylén

Chief Executive Officer, Kambi Group Plc

A

We don't disclose any commission rates to any of our customers.

Oscar Rönnkvist

Analyst, ABG Sundal Collier AB

Q

All right. But is it fair to assume that the commission rate will be significantly lower if they are doing like half of the work in-house?

Kristian Nylén

Chief Executive Officer, Kambi Group Plc

A

As I said, I don't disclose any commission rates. But obviously, if they are not taking our services, they would not pay for it.

Oscar Rönnkvist

Analyst, ABG Sundal Collier AB

Q

Yeah. Fair enough. All right. That was all for me. Thank you very much.

Kristian Nylén

Chief Executive Officer, Kambi Group Plc

A

Thank you.

Operator: Our next question, Viktor Högberg with Danske Bank. Please go ahead.

Viktor Högberg

Analyst, Danske Bank A/S (Sweden)

Q

Good morning. So, on the OpEx guidance, maybe you could help us with the growth rate here, as mentioned mid-20s growth on the midpoint in 2022 over 2021. On the CMD, I recall that you talked about 15% to 20% level potentially over time. So, is this to read that the OpEx growth peak in 2022, then the growth rates to come down in 2023 and onwards towards what you talked about them or even lower in 2023, meeting this comp in 2023 from 2022? OpEx up in absolute numbers, obviously, but could you help us with the long-term growth would be great.

David Richard Kenyon

Chief Financial Officer, Kambi Group Plc

A

Yeah. I think, again, you always need to factor in that step-change from the Abios acquisition, which is now – when I talk about a €4 million increase of that, a very small part, I think we saw under €1 million in 2021. So, there's a €3 million step-change there. And I think adjusting for that, we're much closer to where we have been historically.

And then where we talked about kind of decreasing that growth rate, yeah, I think that you'll see that when kind of probably 2023 onwards, but certainly when we're past any kind of step-change adjustments for acquisition.

Viktor Högberg

Analyst, Danske Bank A/S (Sweden)

Q

Okay. Fair enough. So, what else to see about the Abios contribution then in terms of revenue? So, you're saying something about the cost. What about the profit contribution and their growth? How much did it contribute in Q4? And how much was the full-year revenue for Abios in 2021 and what to expect going forward?

David Richard Kenyon

Chief Financial Officer, Kambi Group Plc

A

So, currently, on revenue, around – between €0.5 million and €1 million for the quarter...

Viktor Högberg

Analyst, Danske Bank A/S (Sweden)

Q

The current run rate...

David Richard Kenyon

Chief Financial Officer, Kambi Group Plc

A

€1 million. Yeah.

Viktor Högberg

Analyst, Danske Bank A/S (Sweden)

Q

Yeah. And when you acquired it, I think you mentioned the market implied growth rate for these kind of products, some 30% or something. Is that still reasonable to expect or a step-change here maybe as well when you introduce it and are able to cross-sell it more? Or what to expect here in terms of its profit contribution going forward?

David Richard Kenyon

Chief Financial Officer, Kambi Group Plc

A

Yeah. I think the profit contribution will, hopefully, increase when they start selling the odds feeds and not – on the esports, so the ability to actually provide odds on the sport to their experts, and so that's kind of only the step-change in their business model where we can expect going forward.

Viktor Högberg

Analyst, Danske Bank A/S (Sweden)

Have you said anything about timing for that?

David Richard Kenyon

Chief Financial Officer, Kambi Group Plc

We haven't put anything out yet, but it's a work in progress, for sure.

Viktor Högberg

Analyst, Danske Bank A/S (Sweden)

Okay. So, the – and going back to the Kindred deal here, minimum guaranteed revenues of €55 million over 2022 in 2024, 2025, and 2026. Is it fair to assume that the largest part, the majority of it, to be seen in 2024, and then gradually phasing out with just a small part in 2026, given that, by then, you are likely to have more of a full product than what you will have in 2024?

David Richard Kenyon

Chief Financial Officer, Kambi Group Plc

I think it's something we can't really comment. We don't know their plans at all. So you'd have to actually take that with Kindred if that's okay.

Viktor Högberg

Analyst, Danske Bank A/S (Sweden)

Okay. Yeah. So – and the convertible, I know you haven't said anything. The only thing you've said now is that you can at your own discretion repay it. Is there any reason for you to stall on that decision now that Kindred has showed their hand and you as well? Was there any reason to not do it in the very near-term?

Kristian Nylén

Chief Executive Officer, Kambi Group Plc

Yeah. I mean, there are certain advantages for us as well to have a convertible in place. I mean, I think it's well enough for us that we know that we can change that whenever we want to. And, yeah, we are happy in that situation at the moment.

Viktor Högberg

Analyst, Danske Bank A/S (Sweden)

So, in a theoretical situation where you were or the board of Kambi were approached by a potential interested party in acquiring the company, you could basically then trigger the repayment of the bonds. So, it's not a prerequisite for it to happen. You could do it in connection with that, just so we know the potential dynamics if that should [ph] happen (00:38:28).

Kristian Nylén

Chief Executive Officer, Kambi Group Plc

Yeah, that's correct.

Viktor Högborg

Analyst, Danske Bank A/S (Sweden)

Okay. Okay. Thank you very much.

Q

Kristian Nylén

Chief Executive Officer, Kambi Group Plc

Thank you.

A

Operator: Our next question comes from Jack Cummings with Berenberg. Please go ahead.

Jack Cummings

Analyst, Joh. Berenberg, Gossler & Co. KG (United Kingdom)

Thanks for taking my questions. Two for me. The first, on costs, I'm just wondering if you could provide any additional color on the step-up in other operating expenses in Q4. I know you mentioned Abios, but just wondering if there were any other things to call out because it seems like it was a pretty material step-change in Q4.

Q

David Richard Kenyon

Chief Financial Officer, Kambi Group Plc

Yeah. Hi. Thanks for the question. Yeah, one big one that we took in Q4 in particular was that we've initiated an application for a license in Nevada, which is the most expensive of the license costs we've had to-date in the US. And that's over €1 million that we've taken there in Q4, which goes through that other line.

A

Some other smaller impacts, but we've got new office premises, which has given us slightly higher depreciation costs. We've had the return of some travel, which we didn't have this time last year, of course. And some kind of one-off technical consultant costs on a few technical projects. So, I think those are the main ones. But Nevada license is one of account that's been the biggest stand-alone in Q4.

Jack Cummings

Analyst, Joh. Berenberg, Gossler & Co. KG (United Kingdom)

Okay. Brilliant. Thanks. Very clear. And then, on my other question, moving into 2022, evidently there's the balance of you've got some clients that have migrated, you've got some new wins, new geographies, new launches, and you've also got into these cost lines being in the mid-20s. I was just wondering how you're thinking about top line growth in 2022. Is there anything that you can share with respect to internal targets, forecasts, ambitions, or where you want that growth rate number to be in full-year 2022?

Q

David Richard Kenyon

Chief Financial Officer, Kambi Group Plc

We don't set out a target. But internally, we're highly confident with the tailwinds we see in terms of regulation, recent signings. So, no, we haven't put a number out there, but we've got reasons to be confident, we could say.

A

Jack Cummings

Analyst, Joh. Berenberg, Gossler & Co. KG (United Kingdom)

Okay. Brilliant. Thanks very much.

Q

Operator: [Operator Instructions] Our next question comes from Valter Lindhagen, Pareto Securities. Please go ahead.

Valter Lindhagen

Analyst, Pareto Securities AB

Q

Thank you. Hello, guys. First question on the Kindred agreement and the convertible bond. So, I try to understand here who kind of initiated this contract extension and so on. And is it correct to read it like you have now reached the certain financial performance criteria, meaning that you're able to repay the bond and that it was this that in turn has triggered the discussion to extend the partnership with Kindred?

Kristian Nylén

Chief Executive Officer, Kambi Group Plc

A

I don't want to comment. I mean, it's a relationship between us and Kindred, and I don't really see the relevance on who initiated what. It's a deal that is very good for both parties, and I think we can leave it at that.

Valter Lindhagen

Analyst, Pareto Securities AB

Q

All right. Understood. And then another follow-up question. I mean, could you comment on whether you have experienced historically that this convertible bond has, I mean, limited your ability to attract new clients given the ties to Kindred?

Kristian Nylén

Chief Executive Officer, Kambi Group Plc

A

I can't comment on that, but I think it's quite obvious what we are seeing in the markets.

Valter Lindhagen

Analyst, Pareto Securities AB

Q

All right. Okay. And at this stage, do you have any comment, anything on the expectations on your relationship with Kindred after 2026?

Kristian Nylén

Chief Executive Officer, Kambi Group Plc

A

No. But it's a very long time until 2027. But I think both Kindred and we are hoping that we can have a much longer relationship than that as they communicated themselves [indiscernible] (00:43:12) a platform but should be based on other third parties. And as we communicated, we are looking to moderate our service, right, definitely so that we have a much, much longer relationship than up until 2026.

Valter Lindhagen

Analyst, Pareto Securities AB

Q

Okay. Makes sense. And then a question on Netherlands. I think in last conference call you guided us a new regulation. Is this expected to negatively impact EBIT by €0.4 million to €0.5 million per month? Is this still your best guess going forward or will the impact be less negative given that you have recently launched with BetCity and JVH?

David Richard Kenyon

Chief Financial Officer, Kambi Group Plc

A

Yes. Actually I'd say that they had a really strong start from the customers who are licensed in Netherlands. This probably means that that impact is less than we first thought. So it's probably around half the impact of what we said last time, so more in the kind of €0.2 million, €0.3 million a month instead of €0.4 million, €0.5 million. So, yeah, we're very pleased with the way that started and of course, more of our operators getting into that market.

Valter Lindhagen

Analyst, Pareto Securities AB

Q

Yeah. Okay. And a final question from my side. Could you comment anything about the start of Q1 in terms of player activity or sporting results?

Kristian Nylén

Chief Executive Officer, Kambi Group Plc

A

We usually don't. Obviously, this is quite a busy period in Q1. So, obviously the activity is quite good. Whether the results have been good for us or not, I'm just not able to talk to.

Valter Lindhagen

Analyst, Pareto Securities AB

Q

All right. Thank you very much. That was all for me.

Operator: At this time, we have no further [audio gap] (00:45:16). Back to you, Mia.

Mia Nordlander

Senior Vice President-Investor Relations, Kambi Group Plc

A

Okay. Thank you very much. We have quite a few questions here on the web. So I start with you, Kristian. We have seen some operators in the US go for their own in-house solution. Can you set that in perspective when it comes even more complex to offer sports betting, when most betting is possible, will they go for a standardized core platform or, yeah, what is the way forward for operators?

Kristian Nylén

Chief Executive Officer, Kambi Group Plc

A

It's very hard to guess what the operators will do in the future. I mean I think what an experienced operator like Kindred are doing now, talking about how many years they have spent on their own racing platform, the amount of people were planning to have to operate the platform, I think it shows how tough it actually is to do a good sports betting platform. So, if anything, I think the recent news should probably be something that the other operators should look at before they start thinking about doing their own platform.

Mia Nordlander

Senior Vice President-Investor Relations, Kambi Group Plc

A

Okay. And I think this question is actually connected to that. So, with both Penn and Kindred migrating at least some of their SB, sportsbook, in-house in the future, do you believe that Kambi could remain independent company in a sustainable, profitable fashion longer term?

Kristian Nylén

Chief Executive Officer, Kambi Group Plc

A

Yeah. Without a doubt, I think the sports betting market is still a very fragmented market and we are a clear leader in the market. So I expect us to be able to pick up a lot of business across the globe. So, I have no doubt that we could continue being an independent and a thriving operator – supplier, sorry.

Mia Nordlander*Senior Vice President-Investor Relations, Kambi Group Plc***A**

Okay. And another one for you, Kristian. When do you expect to work on the [ph] modularization (47:40) product and make it finished and being fully on offer?

Kristian Nylén*Chief Executive Officer, Kambi Group Plc***A**

We have been working on it for quite some time now. But, yeah, before we start offering it, as I said earlier in the call, not until late this year earliest, probably a bit into next year as well.

Mia Nordlander*Senior Vice President-Investor Relations, Kambi Group Plc***A**

Okay. We have another question regarding 2022 outlook. Approximately when in 2022 will you have added enough operators to make up for the loss of DraftKings business? Yeah. Are there any indications that can be, will be included in another operators in New York, for example, or, yeah, more signings? How do you see 2022 outlook?

Kristian Nylén*Chief Executive Officer, Kambi Group Plc***A**

I mean, yeah, I think 2022 looks very promising. We have started the year already with two signings and I think our pipeline looks as good as ever. We also see that we have more states coming up for regulation in the US. So, that looks very nice. We will end the year with the World Cup, which is obviously a very nice event.

However, I would like to also dampen the expectations a little bit. Having a World Cup in the summer is absolutely amazing because it fills gap in usually quite a weak schedule. Having a World Cup in November-December doesn't help the revenues as much as it would do if it were in June-July. But in general, I think 2022 looks to be a very, very good year.

Mia Nordlander*Senior Vice President-Investor Relations, Kambi Group Plc***A**

Thank you. A question about the M&A, what kind of acquisitions are you looking at?

Kristian Nylén*Chief Executive Officer, Kambi Group Plc***A**

In Q1, we are mainly looking at, as I said before, is in areas of quantum and machine learning to become even sharper in and specialized in some of the sports. That is the key area. I think if we were to find the right player account management system, that could be something we are looking for as well. But I not as – I don't think it is as likely to find something there.

Mia Nordlander*Senior Vice President-Investor Relations, Kambi Group Plc***A**

Okay. I get a few questions regarding the opportunities in Asia and Africa. Can you give some color there as well, Kristian?

Kristian Nylén

Chief Executive Officer, Kambi Group Plc

A

So, I mean we are focused on regulated markets. So, Asia, there is almost nothing that is regulated. There may be some opportunities in Philippines actually coming up. But I think the big tickets that we have been talking about and planning for is India and Japan that we hope will regulate, yeah, somewhere three to five years maybe. Africa, I mean, it's a lot of things happening there. We have taken quite an opportunistic approach. It's not a focus market for us, but if there were to come an interesting opportunity inbound, we would definitely look at it.

Mia Nordlander

Senior Vice President-Investor Relations, Kambi Group Plc

A

David, now here's one for you. Now that Kambi has the financial strength, will you pay out the dividend? We used to communicate that, but maybe some color there, David?

David Richard Kenyon

Chief Financial Officer, Kambi Group Plc

A

Yeah. I think actually for now preference has been – will be to use funds on where we – the one buyback program and there could be more, we shall see. But also I think acquisitions rather is the way to really develop the business. So, I think that's probably a more likely use of capital at this stage.

Mia Nordlander

Senior Vice President-Investor Relations, Kambi Group Plc

A

Okay. Kristian, one regarding Super Bowl that will start now. Last year, some apps suffered outages before the Super Bowl and Kambi being blamed. Was this a capacity issue? Or if so, is this capacity ready for the large amount of betting expected?

Kristian Nylén

Chief Executive Officer, Kambi Group Plc

A

Yeah. I think we were already last year ready for the capacity. It's actually fair to blame us to some extent at some of our apps for some of the downtime. Before the match, we were actually fully up and running with our system from coming before the match and throughout the whole match. So, some of the issues were from us, but it was not actually a capacity issue. It was an operational issue where we put up a best offer with way too many outcomes that totally clogged up the system verification. But for this year, I think we have been planning even harder to make sure that nothing can happen and we are very much ready to go.

Mia Nordlander

Senior Vice President-Investor Relations, Kambi Group Plc

A

Okay. Great. I get quite a few questions regarding Fanatics after their New York application. Anything you can say there, Kristian?

Kristian Nylén

Chief Executive Officer, Kambi Group Plc

A

Nothing. If I could say something, you would see it in a press release.

Mia Nordlander

Senior Vice President-Investor Relations, Kambi Group Plc

A

Yeah. Two more questions. If you could give some color on Canada? Are you excited about this market and the potential to win more contracts? And also give some color around the Brazil opportunity?

Kristian Nylén

Chief Executive Officer, Kambi Group Plc

A

Yeah. I mean, if Canada or Ontario especially was a US state, I think it would be the fifth largest state in the US. So, it's quite a big market and it's very exciting. I think we have some customers from Europe who are very keen on getting into the Ontario market. We have some of our US customers keen on getting into the market. And on top of that, as you saw with Torstar, there are new opportunities as well. So, definitely exciting opportunity for us.

Mia Nordlander

Senior Vice President-Investor Relations, Kambi Group Plc

A

And last question here, do you see the competitive environment having changed for sports technology suppliers in the US the past year?

Kristian Nylén

Chief Executive Officer, Kambi Group Plc

A

Yes, I think we have less competition because of some M&A activities with some of the competition we had. So, I mean, I think we are in a better position now than we were a year ago when it comes to prospective.

Mia Nordlander

Senior Vice President-Investor Relations, Kambi Group Plc

Okay. Great. So, the future looks great for us. Thank you very much, David and Kristian, and thank you, everyone, for listening in to us. We will present our Q1 2022 results the 27th of April, and I look forward to see you then again. So, have a lovely day. Thank you.

Kristian Nylén

Chief Executive Officer, Kambi Group Plc

Thank you.

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