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Kambi Group Plc (KAMBI.SE)

Q3 2023 Earnings Call

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MANAGEMENT DISCUSSION SECTION

Mia Nordlander

Senior Vice President-Investor Relations, Kambi Group Plc

Good morning, and very welcome to Kambi's Q3, 2023 Report. My name is Mia Nordlander. I am Senior Vice President, Investor Relations. And I'm here with our CEO, Kristian Nylén; and our CFO, David Kenyon. Today, you will hear David and Kristian talk about the quarter, and then we will have time for questions. You can either call them into the studio here or send them directly in the web.

So, once again, very welcome, and over to you, Kristian.

Kristian Nylén

Chief Executive Officer, Kambi Group Plc

Thank you, Mia, and good morning. Yeah, so I will go through the highlights quickly, and then I will hand over to David, who will go through financial highlights. And then I will come back and give you some more meat on the commercial and strategic updates and the summary, and then we'll do Q&A.

So, first, the quarter, as usual in Q3, it's quite a slow quarter when it comes to sporting events, of course, but nevertheless, we have a revenue growth of 15%. It's boosted, to some extent, by certain non-recurring fees that David will go through in more detail later on. We have a few exciting contract extensions in ATG and the Rank Group, which takes our partner renewals for 2023 to seven, which we are very pleased with.

The two big things to talk about this quarter or actually happened after quarter is our agreements with Svenska Spel and LiveScore, which is two very important new deals for us, very exciting. And it's the two deals ever with the highest revenues from sports betting at contract signing. With those two deals and, of course, with Bally, we have now done 10 Kambi Complete partner signings so far in 2023.

I now hand over to David, and I will come back later.

David Richard Kenyon

Chief Financial Officer, Kambi Group Plc

Thank you, Kristian. Good morning, everyone. Okay. So, Q3 2023, I'd say it's a robust financial performance this quarter in what's effectively our first quarter without Penn online. So, we had revenue of €42.1 million. This was boosted by some non-recurring items, which I'll talk about in the form of transition fees from Penn and a one-off license fee for Shape.

Earnings before interest tax, amortization, acquisitions was €6 million, up from €4.2 million this time last year. This increase is driven by the increase in revenue, which we see there, partially offset by a full quarter of costs from the Shape business and a negative impact of foreign exchange on our P&L versus last year. And excluding FX, this metric is up from €3.3 million to €6.3 million this year.

Our net cash at the end of the quarter is €62.4 million, a significant increase from Q3 last year. And I'll talk through the main changes in that balance, but our balance sheet is in a really healthy position as we move into Q4.

This is the turnover index I present each quarter. It's an aggregation of the portfolio's performance. The blue columns are an indexed turnover across all operators, an index we set at 100 back in 2014. And the orange line there is the aggregated operator trading margin for the quarter.

Operator turnover is down 6% from Q3 2022, and of course the biggest impact is the migration of the Penn online business in early July. And turnover actually grew 9% if you strip out the impact of this Penn migration.

Turnover was also impacted by foreign exchange, with the dollar and the Swedish crown weakening against the euro versus last year, offset partly by a stronger Colombian peso. We saw actually a sporting calendar which was a little quieter this time – this year than last year when there was an increased number of soccer matches due to that Winter World Cup. So, that did have a slight dampening effect also on our turnover versus last year.

The operator trading margin was 8.8% compared to the very high 9.5% we saw in Q3 last year, which takes us to our revenue conversion graph. And first, a couple of comments on this graph, it looks kind of unusual this quarter.

Firstly, we've moved the Shape business into the other column here. It's been more than a year now since the acquisition. So, we look at that more as a BAU. So, we don't want to just keep separating that out. So, that's now into the other column.

And also, I mean, it's fair to say that with all the various revenue streams and business models we now have across the business, as well as repeatedly kind of large items we see in other that I always have to explain, I think it's fair to say that we will assess whether this remains the best format to present our revenue conversion information.

On to the numbers themselves, turnover at constant FX rates was down 3.4% from last year and was also negatively impacted by those foreign exchange movements I mentioned, taking us down to the 6% overall turnover decrease. The margin dropping from 9.5% to 8.8% contributed to an overall net gaming revenue decrease of 12.8%. However, this was offset by a number of items which you see there in the other column.

Firstly, the impact of fixed revenues and minimum guarantees on our business where our revenue is boosted by factors outside of the turnover growth. We had the transition fees from – relating to the migration of Penn that was €3.4 million recognized in the quarter, and we'll keep seeing those fees through to July 2024.

There was a one-off license fee in respect to the Shape business of €2.6 million. And we also had a full quarter of revenues from Shape, so three months versus one month this quarter last year. So, that had a positive impact of €2 million on that other column there. And all in all, adding together all these factors, this led to a 15% revenue growth for the business overall.

There's been a lot of movements in our cash position on a year-to-date basis. And actually, that is kind of a more interesting story, I think, than just looking at the quarter. So, we're showing here a year-to-date position on the cash flow. We started at €60.7 million at the start of the year. This has been boosted by €12.8 million of operating profit.

Working capital has increased our cash by just over €10 million due to some debtor balances on a couple of larger accounts, which built up at the end of 2022 and were paid off in Q1. Then we used €7.2 million in Q2 to repurchase some of our own shares. And we also, in Q2, repaid the €7.5 million convertible bond, which was our only external debt and is now fully extinguished.

The tax paid year-to-date is €8.7 million, but at the end of the quarter, we have a tax recoverable position of €3.5 million, which we expect to recover in due course and will increase our tax – increase our cash balance, sorry.

And also offsetting that operating profit is €3.9 million of amortization on the acquired intangibles. That's, of course, a non-cash item, so our cash balance actually increases due to that. The net effect of all these movements I talk about here is to increase our cash by €1.7 million since the start of the year, giving us a closing balance of €62.4 million.

And with that, I pass you back to Kristian.

Kristian Nylén

Chief Executive Officer, Kambi Group Plc

Thank you, David. All right. So, I started with talking about two very exciting signings, and of course those are Svenska Spel and LiveScore Group. As I said, these are the two most – our largest deals in terms of existing sports betting revenues at the point of signing, and it's very pleasing for us. Both these operators have very well-established sportsbooks, and we are feeling very, very happy about making these deals.

If you remember, I've been talking about the sales pipeline and that it would have some impact on our modernization strategy. And with Bally and Svenska Spel and LiveScore Group, we have taken on some future development, and that was what pushed out our modernization strategy slightly, but we are still on track with all of that. Both these operators are expected to have a very meaningful financial impact, especially from H2 2024. And I will talk a little bit about the launches individually on these two.

I would say the most important for us is that – I mean these two deals really validate that Kambi Complete product is still a very, very strong product, and we believe that we will have a very good pipeline going forward as well to make more deals on our Complete product.

And I think what we have done over the last couple of years, giving more and more possibilities to differentiation, has made our product more and more attractive, and that's what we're seeing now with signing Svenska Spel and LiveScore Group.

Going into them in detail, Svenska Spel, for many of you who are Swedish like myself, I don't think we need much of a presentation of Svenska Spel. I think, or I know, they started with Lången as a former monopoly in fixed-horse betting in 1986. I, as a 15-year-old, made my first fixed-horse bet the first week Lången existed, I think.

They are, yeah, one of the absolute largest brands in Sweden, whether it's sports or any other industry, and they are a major sponsor of both Swedish football and ice hockey associations, among other sponsorships.

With this deal, we again did work together with Shape Games, so they are a big part of this deal, and they will power the front-end for Oddset, and that will enable them to additionally differentiate from our other Swedish brands. Svenska Spel are planning and hoping to go live before the Euro that takes place this summer, and therefore we think they will have a meaningful impact on our financial results from H2 and forward.

The other big signing, LiveScore Group, has an even bigger existing revenue than Svenska Spel. They have two brands, LiveScore Bet and Virgin Bet. Both of these brands are very big in the UK, and I think Virgin Bet has been around for more than four years, and LiveScore Bet is slightly shorter.

This is also driven by the LiveScore app, which is a live betting app that I think I started using myself in 2000, so it's been around for a long, long time. It currently has more than 50 million active users globally. And I think 31% of UK bettors are acquired from this media platform. Again, very meaningful sports betting revenues. We're planning to start getting live with them earlier than Q2, but from H2 next year, we believe they will have a very meaningful impact on our results.

I believe LiveScore Group can be one of Kambi's largest operators quite quickly. With their 50 million global users and their plans to expand into new markets, I think they have a very interesting journey ahead of themselves. And I would say, on the back of winning Bally's, then Svenska Spel and LiveScore Group, we have really put ourselves in a great position going forward.

While LiveScore and Svenska Spel is our headline deals, it has been a lot of other activities. I will not go through all of these pieces on this slide. I let you yourself to look at this. But I want to point out a few of them. ATG, as I said before, we have done a partnership extension. They have been a great partner to us and have been the market leader on sports betting in Sweden over the last couple of years. So really important to get them extended.

We have, of course, done a launch with BetMGM with LeoVegas. And of course, this attracted some attention, but this is just simply a continuation of our LeoVegas partnership. And so far, I think the signs are very good. BetMGM is gaining traction in the UK.

And finally, I would also like to talk a little bit about 711, which is probably not a household name in gaming for anyone, but they are a casino operator in the Dutch market and doing quite well on casino, and we hope they can replicate that into sports betting.

I also would like to talk a little bit about what's happening with Abios and Shape. Starting with Abios, firstly, they have now launched their esports product on the Kambi network through our Kambi Trading Gateway, which has been a huge project for us to make Abios our Tzeract that I soon will talk about, but also external suppliers able to trade through our gateway.

The sign so far of Abios' odds product is great and I'm very pleased to see what has happened so far and looking forward to a future with more and more sports coming on. And they have also signed a deal with Oyawin in the Nigerian market to provide as the first external operator provide their odd services.

And then we have Shape Games. Of course, the partnership with Svenska Spel is a great win also for Shape Games, and I think the partnership with Kambi is a big reason we won this deal. But they have also been active outside of that. They have made a deal with SunBet, which is of course already a Kambi-powered operator. And they have also launched with BetCity on a Shape Games native casino app. So, we're making strides to a large extent together, Kambi and Shape, and now we really are going to push them through our rest of the network.

As I promised the last quarter, I will go more into the incubation of our AI trading unit. But first, I would like to talk a little bit on why this is so important. I think it's two factors that is driving this development. First of all, every year you get more and more depth and quality of sports data that you can utilize to create new betting markets. And it becomes more and more tough for the human brain to process and leverage this potential.

Secondly, as you can see on this graph, it is becoming more and more consumer – yeah, consumer trend to move towards these kind of markets. I have always talked about how important players are becoming for the young audience, people stopped following teams and are more starting to follow players. And I believe that the betting pattern will reflect that.

So, you can see already from 2014 up until 2022, it was quite a big rise in this complex market. But what you can also see is when we started with our AI trading at World Cup, the shift in this graph has been quite dramatic. I believe this will be a must for any sportsbook. And I think this is one of the key reasons why we believe that this can also succeed as a stand-alone module. We have already been winners of a few awards on this technology. So, we are really looking forward to taking the next step with our AI trading.

And therefore, I am very happy to introduce Tzeract, which is a new brand name we will sell these products under. Tzeract, which is also a four-dimensional cube, we aim to bring a new dimension to sports betting and to open a whole new world of possibilities for our operators.

First and foremost, Tzeract is, of course, fantastic for their pricing and trading capabilities. We can do better quality in pricing, we can do a much, much wider range of pricing, and we can also do it much, much more effective.

Secondly, it gives us a huge innovation potential. Tzeract has redesigned the way how to distribute the bet offers, and I think it leaves rooms both for ourselves and also for our operators to come up with new, unique betting products on their algorithms. And it has already proven at scale. So far, 75% of our bets pre-match soccer since the World Cup has been stricken on this technology. And that's roughly 300 million bets.

So very, very pleased with what has happened so far. We recently went live with Tzeract's first test customer outside of the Kambi network, and we expect a full product and commercial launch in Q1 2024, by which we also believe that we will have in-play soccer and tennis added to the portfolio.

We recently returned from G3 exhibition in Las Vegas, and I can tell you that the interest for Tzeract, we didn't unveil the name though at that point, was quite spectacular. And I really believe that this will be a great vehicle for our modular services going forward.

So in summary, I believe LiveScore and Svenska Spel really underline the demand for Kambi sportsbook. I've been talking for quite some time about a very, very strong sales pipeline, and I'm very pleased to be able to talk about LiveScore and Svenska Spel in this quarter report.

With Tzeract, we are raising the bar in AI sports trading, and I believe the product innovation we can create will be spectacular, both for our complete product, but also sold as a modular service. And I really believe that what we presented at the Capital Markets Day has been a great strategic route, and what we have delivered so far really lays a great foundation for our future growth.

Thank you very much.

Mia Nordlander

Senior Vice President-Investor Relations, Kambi Group Plc

Thank you, Kristian, and thank you, David. And now, it's time for questions. So, I just want to remind you that you can either call to us here in the studio or send them directly through the web, but we will start with the telephone questions. So, over to you, operator.

QUESTION AND ANSWER SECTION

Operator: [Operator Instructions] The next question comes from Oscar Rönnkvist from ABG Sundal Collier. Please go ahead.

Oscar Rönnkvist

Analyst, ABG Sundal Collier AB

Q

Thank you. Hi, Kristian, David and Mia. Thanks for taking my questions. So, first of all, I just wanted to get a sense of the modularization strategy here also, and the – a couple with the signings pipeline. So, I mean, it's great to see that you have won some turnkey contracts now, so can you just say anything about sort of the timeline on the modularization strategy? You obviously say that you're going to launch now in Q1 2024 with the new AI trading, which sounds very interesting. But also, I mean, I think that you have already launched some sort of modulars before this year, but we haven't really seen any sort of signing. So, what that would be like? And also what you think about the new – or I mean, the remaining pipeline, which types of contracts that you can win, and if these signings are the sort of main ones that you expected before, or if we could see additional sort of Tier 1 or Tier 2 client signings here? Thank you.

Kristian Nylén

Chief Executive Officer, Kambi Group Plc

A

Oh. That was a lot at the same time. So, if we start with the modernization strategy, first of all, I wanted to stress that, I mean, we are presenting wins with both Abios and Shape. I also wanted to stress that, I mean, I talked about it already in Q2 or even Q1, I think, actually, [ph] what (00:26:02) we believe that we would have to pause a little bit on some of the trading modernization due to product requirements from signings. And we have done three quite large signings where it was some product requirements in all of them.

So, it will probably take some time to get to a situation for us to do the first launch of a modernization strategy for trading. I think the easiest path for us is with Tzeract since it's less development than it is doing it on the sports we

have done traditionally. But I do believe that we will see our first signings on the trading during hopefully the first half year of 2024.

The second part was, of course, about whether Svenska Spel and LiveScore was part of what we expected to be our pipeline that we've been talking about. And I think we have been in quite deep discussions with LiveScore and Svenska Spel for the best part of a year or more. So, obviously, this has been part of our pipeline for a long time.

But with that length, I would say that there are others still in that pipeline that we have been talking to for quite some time. We have signed 10 operators this year, so obviously it has taken a little bit out of the pipeline, but it still feels very solid at the moment. Did I forget anything?

Mia Nordlander

Senior Vice President-Investor Relations, Kambi Group Plc

No, I think it was...

A

Oscar Rönnkvist

Analyst, ABG Sundal Collier AB

I think there was just a small follow-up, because, correct me if I'm wrong, but both LiveScore and Svenska Spel are former SBTech clients, I think, and just I guess that there are a few other former or current SBTech clients. What's the competition like in these sort of tenders, if you could expand on that?

Q

Kristian Nylén

Chief Executive Officer, Kambi Group Plc

I think, both Svenska Spel and LiveScore are very desirable customers for anyone, [ph] bettor or operate (00:28:46) in sports betting. And it's of course on the European market that has historically been the most competitive. So, everyone are, of course, interested in winning these kind of deals. So, it's as tough a competition as it could be.

A

Oscar Rönnkvist

Analyst, ABG Sundal Collier AB

Understood. Just the next question I have on the cost side. So, I think that we saw a bit of an improvement now in Q3 and you obviously are lowering the midpoint guidance with 4% for 2023. Just sort of the run rate and going into next year as well and also balancing costs between revenue going into 2024, should we assume that? I mean, [ph] employees (00:29:35) should sort of flatten out at these levels. I noticed they were up from Q3, but do you expect that hiring needs to increase more into 2024? Or should this be sort of a decent level going forward? Thanks.

Q

David Richard Kenyon

Chief Financial Officer, Kambi Group Plc

I think the main point is that at the Capital Markets Day, we talked about slowing the rate of cost growth. And we've seen that underlying this year. So taking out the acquisitions we've made, the rate of cost growth has come down significantly versus what we did historically. And I think, going forward, we haven't released our guidance for next year, but I think that pattern of reduced cost growth will continue. And of course, there are inflationary pressures, et cetera, on that cost base. So, it is likely to go up to some degree, but it will be in a much slower rate than you've seen over prior years, I would say.

A

Oscar Rönnkvist

Analyst, ABG Sundal Collier AB

Q

Understood. I think I might get back in line and open up for some other questions. Thanks.

Operator: Thank you. The next question comes from Viktor Högberg from Danske Bank. Please go ahead.

Viktor Högberg

Analyst, Danske Bank A/S (Sweden)

Q

Yeah. Good morning. So, on LiveScore, you said, Kristian, that you think this can become one of your largest customers and quite quickly at that. I think your largest customer generates about €30 million a year. And what will be the accelerant for LiveScore to reach or getting close to that level, because we can see in public filings that they're not there yet in terms of B2C revenue. Could you just help us understand what you're seeing and what they will do and what they have said that they will commit in order to accelerate growth with their new supplier?

Kristian Nylén

Chief Executive Officer, Kambi Group Plc

A

Yeah. I mean, maybe I said one of the largest, not the largest, to start with. But I can't comment very much on what they have talked to me about. I think that is for LiveScore to talk about. But it's quite obvious that they are looking at more international expansion. So, that is obviously where I believe a lot of this growth can come. I also hope that we are able to bring a better product to them and, therefore, that they can grow quicker on their existing markets as well.

Viktor Högberg

Analyst, Danske Bank A/S (Sweden)

Q

Okay, thank you. And also on the revenue question here in Q1, on the one-off revenues, firstly on Penn, the €3.4 million. I thought it was \$1 million per month. Is this slightly higher or this is slightly higher than that? What's the driver for that?

David Richard Kenyon

Chief Financial Officer, Kambi Group Plc

A

Yeah. [indiscernible] (00:32:31) actually is \$15 million dollars over 13 months. So, it's a slightly different calculation there. So, yeah, [ph] we'll run (00:32:39) to July 2024.

Viktor Högberg

Analyst, Danske Bank A/S (Sweden)

Q

Okay. So, [ph] two (00:32:45) months earlier then. And also, the Shape license fee €2.6 million, could you help us on unwrap what that includes, what it's tied to? Is it a real one-off or does it take it to a new revenue baseline, just so we understand what deal that was tied to and is the background for that?

David Richard Kenyon

Chief Financial Officer, Kambi Group Plc

A

Yeah, I'll take that one. Yes, it's a real one-off. It's one component of one of our deals. I can't kind of get into who it was or any more real commercial details. I'm not allowed to go there. But as part of one of the deals, we had to apply the terms of IFRS 15 on how to recognize revenues for licenses. And so, that led to this €2.6 million as a

pure one-off on that particular deal as one of the components of that deal. But yeah, you shouldn't count on it going forward.

Viktor Högberg

Analyst, Danske Bank A/S (Sweden)

Q

Not on this client maybe, but for other client signings, would this be a dynamic that could come back for other future signings or was this just a very special case?

David Richard Kenyon

Chief Financial Officer, Kambi Group Plc

A

Quite a special case, I'd say. It shouldn't be a standard part of the business model going forward.

Viktor Högberg

Analyst, Danske Bank A/S (Sweden)

Q

Okay. And while I have you, could you just help us with Abios, the revenues now in Q3?

David Richard Kenyon

Chief Financial Officer, Kambi Group Plc

A

Yeah, they're still running at approximately breakeven, a slight loss. It's around €0.5 million still on revenue. Obviously, Kristian mentioned the launch of the odds product. That hasn't really kicked in in terms of those revenues yet. So, that €0.5 million is really from kind of business models they were operating prior to the odds. So, hopefully, it can go up in the future. But for now, it's around €0.5 million at around breakeven.

Viktor Högberg

Analyst, Danske Bank A/S (Sweden)

Q

Okay. A final question for me. Could you help us with some details on the AI trading [ph] through (00:34:34) the Tzeract, the test customer that you mentioned, is this [ph] tool is going to be (00:34:48) relevant for operators, large and small, or just some part of the market just thinking about potential time and the signing opportunity?

Kristian Nylén

Chief Executive Officer, Kambi Group Plc

A

We believe it will be relevant for anyone. I say we will have a focus on larger customers rather than smaller customers. But I think it can be highly valuable for any operator to get these kind of services.

Viktor Högberg

Analyst, Danske Bank A/S (Sweden)

Q

Yeah. Could you help us – just remind us on the revenue model on this one, one slide? Is it going to be [ph] take (00:35:22) on the turnover that flows through this product or some kind of fixed fees related to it as well, or just remind us on that one, please?

Kristian Nylén

Chief Executive Officer, Kambi Group Plc

A

I mean, I could see different models. It depends a little bit on the flexibility we give on setting their own margins. But I would say either turnover-based or commission [ph] rate (00:35:47) based is probably the most likely. It could be some element of fixed [ph] stores (00:35:55) as well, but I don't think that is the majority or anything.

Viktor Högberg

Analyst, Danske Bank A/S (Sweden)

Okay. Thank you very much.

Q

Operator: [Operator Instructions] The next question comes from Oscar Rönnkvist from ABG Sundal Collier. Please go ahead.

Oscar Rönnkvist

Analyst, ABG Sundal Collier AB

All right. Hi, again. Just starting off on a follow-up on the new AI trading and potential clients. So, would you say that there have been interests from larger operators that are currently having in-house trading and sort of a total in-house sportsbook at the moment, looking to maybe outsource just some part of the trading to your AI trading platform?

Q

Kristian Nylén

Chief Executive Officer, Kambi Group Plc

Yeah. I mean, yeah, to be clear, for us to sell Tzeract services, they need to have their own platform, of course. So, yes, it must be customers who are having their own platform and, therefore, to a large extent, probably their own trading.

A

Oscar Rönnkvist

Analyst, ABG Sundal Collier AB

Got it. Then just I wanted you to elaborate a little bit on the start of the Brazilian launch with Lance!. I guess that RDP is awaiting license approval before launching, is that correct? And also, how has the start with Lance! been going in Brazil?

Q

Mia Nordlander

Senior Vice President-Investor Relations, Kambi Group Plc

There have not been any public figures published, so of course we cannot really comment on that. But regulation is moving in Brazil. A few days ago, the Ministry of Finance actually released an additional regulation and they give operators a fast track to register within 30 days. But that's what we can say about Brazil. I think we all feel a bit disappointed about the delay, but we feel that regulation will come into place at some point and that's also when RDP will go live.

A

Oscar Rönnkvist

Analyst, ABG Sundal Collier AB

All right. And then, Peru will obviously regulate, I think it'll be late Q1 2024 or early Q2 2024. Are you currently having any customers that you know are going live in Peru or is it anything that maybe is in your sales pipeline?

Q

Kristian Nylén

Chief Executive Officer, Kambi Group Plc

I mean to start with, I think, we have two customers already active in Peru. And of course it's one of the regions we are looking or one of the countries in LatAm where we are looking to add to our portfolio.

A

Oscar Rönnkvist

Analyst, ABG Sundal Collier AB

Q

I see. Perfect. And then I think just the last one. If you expect any sort of impact from the Finnish regulation, I think it's supposed to come in 2026 or something. Do you have any updates on that and how that might impact you?

Kristian Nylén

Chief Executive Officer, Kambi Group Plc

A

No, not really at the moment, but obviously any regulation comes with a greater possibility to do marketing, which is a positive. It may present new opportunities for us, which is a positive, but it will also impact us negatively with the tax burden. So, historically, I would say that most regulations has been net positive to us. So, we obviously hope that's the case with the Finnish regulation as well.

Oscar Rönnkvist

Analyst, ABG Sundal Collier AB

Q

Understood. That was all for me. Thank you very much.

Mia Nordlander

Senior Vice President-Investor Relations, Kambi Group Plc

A

Thank you.

Operator: The next question comes from Viktor Högberg from Danske Bank. Please go ahead.

Viktor Högberg

Analyst, Danske Bank A/S (Sweden)

Q

Hi, sorry. Just another one for me on the sports betting morning, you've been consistently in the high end of the range you put forward and you still keep the range, 8% to 9%. Could you just help us understand what to expect over time with an increased influence maybe from combinations? Thank you.

Kristian Nylén

Chief Executive Officer, Kambi Group Plc

A

Yeah, I would say that we probably will at some point guide for a higher margin. But I don't know if you have been following the soccer in October. I don't think this is the right time to guide for higher margins. As you can see so far in October, it has been quite a lot of favorites winning in the soccer.

Viktor Högberg

Analyst, Danske Bank A/S (Sweden)

Q

But over time, Q4 aside, you see a structurally higher sports margin, of course a negative impact on turnover on that one. Would you say that the net effect would be neutral on revenues or slightly positive in the short term and then neutral over time, [ph] that's (00:41:48) the dynamic, so that would be good.

Kristian Nylén

Chief Executive Officer, Kambi Group Plc

A

Yeah. I think – I mean, it's not a 100% correlation between turnover and margins, of course. So, a higher margin in short term will always render slightly higher revenues. The question is on the long term if you can keep players

active when you have too high margins. So, that is always something we are looking into, whether we are getting too good margins out of the players, and for that reason should possibly raise the paybacks slightly.

So, that's always something we are looking at talking to our operators about. But the current trend with more and more exotics, more and more bets placed on Bet Builders, margins will continue up unless we are changing the paybacks.

Viktor Högberg

Analyst, Danske Bank A/S (Sweden)

Okay. Thank you.

Q

Operator: There are no more questions at this time. So, I hand the conference back to the speakers for any questions from the web and closing comments.

Mia Nordlander

Senior Vice President-Investor Relations, Kambi Group Plc

Okay. Thank you very much. We actually have quite a few questions here. I start with you, Kristian. With half of your revenue now coming from the Americas, is this region now – in this region now, how come – what is Kambi's most important growth markets? We start with that, and I have some more.

A

Kristian Nylén

Chief Executive Officer, Kambi Group Plc

Yeah, it's a little bit hard to say. I mean, with announcements we have done this quarter, I would say Europe is the biggest growth market for now. But I do believe that LatAm at the moment is probably the market we will see most growth in. At some point, I really hope that the movement will happen in California and Texas and then, I think, in North America will become the largest growth market. And then, of course, as we have talked about, to some extent, Asia is the largest gaming market in the world by quite some distance. And we hope that we will see some regulations there in the future.

A

Mia Nordlander

Senior Vice President-Investor Relations, Kambi Group Plc

Okay. Thank you. And then about AI, is this the most significant technology development pushing the betting industry forward, according to you?

A

Kristian Nylén

Chief Executive Officer, Kambi Group Plc

Yeah. I mean, I think if you look at the gaming industry, it has always been outside technology that has been driving the gaming industry forward. First online, then you had mobile and so on. And now, I think AI is the massive driver of what is possible in the field of sports betting.

A

Mia Nordlander

Senior Vice President-Investor Relations, Kambi Group Plc

Then it was about the live score deal. Do you see a lot of value and potential in your new partner coverage model of media and betting?

A

Kristian Nylén

Chief Executive Officer, Kambi Group Plc

Yeah, I mean, as you saw, I mean, they have – 30% of our acquisitions in the UK coming from the use of the LiveScore app. So, obviously, that is an amazing driver of owning your own affiliate. And the way they have been working with this, with very deep integration, creating streaming services, LiveScore app, news and also combining it with betting, I think, is a very, very strong proposition.

Mia Nordlander

Senior Vice President-Investor Relations, Kambi Group Plc

And another customer question. How would you say the launch of Bally's has started? And do you feel that the potential of Bally's is intact?

Kristian Nylén

Chief Executive Officer, Kambi Group Plc

I do feel that the potential is definitely there. I think so far, they have focused more on getting it launched for their existing users and have not really pushed a button on marketing. So, I hope we will see that in the near future.

Mia Nordlander

Senior Vice President-Investor Relations, Kambi Group Plc

Thank you. David, your balance sheet is very strong. Under what circumstances would you initiate a new share buyback program?

David Richard Kenyon

Chief Financial Officer, Kambi Group Plc

I mean, yes, it is strong. I think we've shown – we have done buybacks in the not-too-distant past. Yeah, it's for sure something the board will be looking at, I am sure, given the strength of the recent signings. So, yeah, we will update the market as soon as there is any news, but we have got a strong cash balance and those signings under our belt, so I think it looks good.

Mia Nordlander

Senior Vice President-Investor Relations, Kambi Group Plc

Although, we need a strong balance sheet, of course, to operate...

David Richard Kenyon

Chief Financial Officer, Kambi Group Plc

We always do, but we still have the cash balance, it's good.

Mia Nordlander

Senior Vice President-Investor Relations, Kambi Group Plc

Many questions here. We go over to you, Kristian. Do you feel that it's easier to sign partners where you're already strong, like Sweden, UK, Netherlands?

Kristian Nylén

Chief Executive Officer, Kambi Group Plc

Not really. I think if you look at the US, I think we have an amazing brand recognition now and a lot of our wins is there as well. I think, yeah, you need to have – yeah, it becomes easier when you have a strong brand, for sure. So getting the first kind of reference customers into new markets are very important. But I don't really feel that it's only like in a part of Northern Europe we are strong. I think we have quite a big footprint. I think we are clearly the most recognized sports betting supplier brand, both in Europe, North America, and also getting there in Latin America.

Mia Nordlander

Senior Vice President-Investor Relations, Kambi Group Plc

A

Thank you. Now when you are talking to potential customers, do you feel any price pressure? Or is it similar levels as before?

Kristian Nylén

Chief Executive Officer, Kambi Group Plc

A

It is always price pressure. And I would say it is going up and down a little bit. I think not having SBTech on the market was great for some time, but there are coming new players. So, it's always something you have to work about. But I also think we have a fantastic product, and operator are willing to pay a bit more for our service than others.

Mia Nordlander

Senior Vice President-Investor Relations, Kambi Group Plc

A

And this is a classic question, how do you see the sales pipeline and which regions have the highest demand right now?

Kristian Nylén

Chief Executive Officer, Kambi Group Plc

A

As I said, I still think it is strong. Obviously, we have got a few out of the sales pipeline at the moment, but it's coming new, and we have a length of discussions we are having. As I said, I mean, Svenska Spiel and LiveScore, we probably have been in quite deep – detailed discussions for almost a year each. You can imagine that there are others that we are in discussions with at this point as well.

Mia Nordlander

Senior Vice President-Investor Relations, Kambi Group Plc

A

Okay. Thank you. David, can you give us some color on data supplier costs? Is this a new level we can expect or anything you can share here?

David Richard Kenyon

Chief Financial Officer, Kambi Group Plc

A

Yeah. I mean, there have been some contract renegotiations which have helped kind of move the costs down slightly. But you've got to bear in mind it's an activity-based cost. So, it's one that is impacted by the number of customers we have. So, when Penn moves online that migrates away from us, that reduces that cost. And of course, seasonality on the same basis will affect it and the launch of new customers. So, it's a cost that – it's one that if it goes up it's because there is more activity on the network and more customers being launched. So, yeah, the cost has come down, but hopefully it goes up because the customers are doing well and we're doing well.

Mia Nordlander

Senior Vice President-Investor Relations, Kambi Group Plc

Yeah. And it's a pass-through as well.

A

David Richard Kenyon

Chief Financial Officer, Kambi Group Plc

It's a pass-through, yeah.

A

Mia Nordlander

Senior Vice President-Investor Relations, Kambi Group Plc

Yeah. Thank you. So many questions today. I'm excited here. Kristian, over to you now, how far [ph] ahead (00:51:19) of the market are you with Tzeract? Are your B2B competitors or the largest B2C operators as advanced with AI trading as Kambi to your knowledge?

A

Kristian Nylén

Chief Executive Officer, Kambi Group Plc

I definitely think there are others that are doing great things in this area. But compared to the general market, I think we are in a very, very good position. We obviously have only launched one sport yet. But I think the system we have built is quite easy adaptable to new sports, which is one of the big advantages here.

A

Mia Nordlander

Senior Vice President-Investor Relations, Kambi Group Plc

Thank you. A question about Svenska Spel, you mentioned in your report about empowerment tools, can you give some color there what that means?

A

Kristian Nylén

Chief Executive Officer, Kambi Group Plc

Don't want to give too much until we have launched more of it. But of course, one big part here is that they will go for bespoke front and with Shape. So, they will get much, much more possibilities of – differentiate their front than what customers have on our network unless they are building their own front, of course.

A

Mia Nordlander

Senior Vice President-Investor Relations, Kambi Group Plc

Yeah. And the question about Kindred revenues, when should we expect to start to see a tail off from them? And can you please elaborate to which extent the recent signings would be able to offset the reduced Kindred revenues?

A

David Richard Kenyon

Chief Financial Officer, Kambi Group Plc

Yeah. I can take that one. So as we announced previously, the new Kindred contract kicks in from 1st of January next year. So, of course, that comes with new commercial terms. So, I can't put any numbers on that, but that's when you start to see those new terms kick in from 1st of January. I can't get any specifics on how much the new customers can replace that. But we said those new customer revenues from these most recent signings are probably not going to come in to our books until second half next year. So, there's going to be a time where you're going to have pressure on the revenues on that basis. But longer term, for sure, it looks very exciting and positive, and so great to have those signings done.

A

Mia Nordlander

Senior Vice President-Investor Relations, Kambi Group Plc

Thank you, David.

A

Kristian Nylén

Chief Executive Officer, Kambi Group Plc

But yeah, to give a little bit more color, I mean, what we have communicated about the Kindred deal is that we have €55 million in minimum revenue guarantee over three years. That doesn't have to be distributed equally, but I mean, it puts a floor for what the revenues will be between 2024 and 2026.

A

Mia Nordlander

Senior Vice President-Investor Relations, Kambi Group Plc

Thank you. A few questions here. Can you give some more color on the AI test client? You mentioned that it was out of your network. Did you test starting before or after G3?

A

Kristian Nylén

Chief Executive Officer, Kambi Group Plc

No, I don't want to give any more color on that.

A

Mia Nordlander

Senior Vice President-Investor Relations, Kambi Group Plc

You mentioned continued optimism on the pipeline, but should we expect to be full turnkey or models, or both?

A

Kristian Nylén

Chief Executive Officer, Kambi Group Plc

As I said, I mean, at the moment, we're not 100% there because of product commitments with the big complete clients we have taken on. So, for the rest of this year, I think, if you see something announced, it's more likely to be complete clients rather than model customers.

A

Mia Nordlander

Senior Vice President-Investor Relations, Kambi Group Plc

Thank you. And here, we have the last question. Is the launch of Tecno Acción in Argentina through your existing partner, Ondiss?

A

Kristian Nylén

Chief Executive Officer, Kambi Group Plc

Yes.

A

Mia Nordlander

Senior Vice President-Investor Relations, Kambi Group Plc

It is, yeah. I answered myself.

A

Kristian Nylén

Chief Executive Officer, Kambi Group Plc

I think your pronunciation was a little bit weak.

A

Mia Nordlander

Senior Vice President-Investor Relations, Kambi Group Plc

I apologize, I'd have to go and practice my pronunciation there. But thank you very much for the questions. Thank you, David and Kristian. We will be back here for the Q4 result presentation on the 21st of February. As always, if you have questions, feel free to reach out to the IR department, myself or Chris. And I hope you have a very good day, so thank you very much.

Kristian Nylén

Chief Executive Officer, Kambi Group Plc

Thank you.

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