

Kambi Group plc

Q2 Report 2017



Kambi

Financial Summary

- Revenue amounted to €14.1 (13.7) million for the second quarter of 2017, an increase of 3%
- Operating profit (EBIT) for the second quarter of 2017 was €0.3 (2.0) million, with a margin of 2% (14%)
- Following the win of the 888sport contract renewal, Kambi's revenue and EBIT have been affected by €1 million¹ for the first six months of 2017. Despite the financial impact, this is in the long-term interest of Kambi's growth.
- Profit after Tax amounted to €0.1 (1.8) million for the second quarter of 2017
- Earnings per share for the second quarter of 2017 were €0.004 (0.060)
- Cash flow from operating and investing activities (excluding working capital) amounted to €-0.5 (0.1) million for the second quarter of 2017

¹ €1 million effect comprising €0.4 million adjustment to Q1 2017 revenue and €0.6 million to Q2 2017

Key Highlights

- Agreement signed with 888sport to extend the partnership with Kambi for the long-term. There is a €1 million effect on revenues for the first six months of 2017 due to the terms of the contract.
- Corredor Empresarial in Colombia has signed an exclusive deal for Kambi's premium Sportsbook, further strengthening Kambi's foothold in Latin America
- Solid 16% operator turnover growth year-on-year, despite tough comparisons
- EGR B2B award winner of 'Sports betting supplier 2017'



"I am pleased to report that Q2 was a successful trading period for Kambi. Not only has the day-to-day performance of the business remained strong, but Kambi has managed to further strengthen its foundations for future growth.

We are very pleased to have secured a multi-year extension with one of our key customers, 888sport. We believe the longer term benefit from securing 888sport for years to come, far outweighs the shorter term impact the re-negotiation has on our financial results. Together we have enjoyed a very successful partnership, with 888sport having

seen a near 500% increase in sports betting revenues since switching to Kambi in 2013.

I am also delighted that Corredor Empresarial has chosen Kambi as its trusted partner for the launch of a Sportsbook in its home market of Colombia. We believe this deal will lead to significant business opportunities for both parties.

Kambi identified Corredor Empresarial as a key strategic partner in Colombia. With its vast retail reach of more than 25,000 outlets, as well as its new BetPlay online brand, we believe Corredor Empresarial has the potential to become the country's number one sports betting operator.

Together with Grupo Televisa in Mexico, Kambi has managed to secure two major players in the two largest regulated Latin American markets, which not only speaks to the strength and scalability of the Kambi Sportsbook, but also places us in a strong position to win further customers in the region.

These new contracts, together with the year-on-year turnover growth of 16% delivered by our operators - despite last year's corresponding quarter featuring the majority of the Euro 2016 tournament - underline the quality, stability and relevance our service offers our customers.

The global sports betting market has a total value of more than €50bn in GGR² and a rapid growth rate with many countries moving towards regulation. This makes us confident we will be able to increase our growth and market share further with both new and existing customers.

Finally, I'm pleased to say Kambi won 'Sports betting supplier' of the year at last month's prestigious EGR B2B awards in London. This achievement is a reflection of all the hard work and dedication shown by everyone at Kambi and provides further evidence of our success at creating the best sports betting experience", says Kristian Nylén, CEO of Kambi.

² Source: H2GC

Second quarter financial breakdown

	Q2 2017 €m	Q2 2016 €m	Jan - Jun 2017 €m	Jan - Jun 2016 €m	Jan - Dec 2016 €m
Revenue	14.1	13.7	28.3	26.9	56.0
Operating result	0.3	2.0	1.6	3.9	8.8
Operating margin	2%	14%	6%	15%	16%
Result after tax	0.1	1.8	1.2	3.6	7.5
Cash flow ¹	-0.5	0.1	0.3	1.5	4.1
Net cash ²	22.8	20.3	22.8	20.3	25.1
	€	€	€	€	€
Earnings per share	0.004	0.060	0.040	0.119	0.253

¹ Cash flow from operating and investing activities excluding movements in working capital

² Total cash at period end less convertible bond

Q2 Highlights

Kambi operator turnover increased by 16% during the second quarter despite the absence of a major football tournament this summer. The solid underlying operator performance, in the face of tough comparatives, demonstrates the power of the Kambi Sportsbook. However, the operator margin of 6.3% was lower than the expected long-term average of 6.5 – 7% due to a poor start to the quarter.

In order to remain at the forefront of the market, Kambi continued to invest in both people and technology during Q2. Kambi is, as always, in close collaboration with its operators to ensure it delivers the best betting experience to their players.

Corredor Empresarial

Kambi signed a contract with Corredor Empresarial S.A., Latin America's largest private 'games of chance' network, where Kambi will be the exclusive supplier of sports betting services for the operator's *BetPlay* brand.

Kambi will supply its state-of-the-art sports betting services to Corredor Empresarial's new online operations with the potential to roll-out to its Colombian land-based lottery and payment service network over time. The network consists of more than 25,000 retail outlets with a total of seven million registered daily customers.

This signing is further proof that Kambi's investment in regulated Latin American markets is paying dividends. Along with Grupo Televisa in Mexico, Kambi has now secured two operators with the foundations to build market-leading positions in their respective countries. With other countries in Latin America looking to regulate, Kambi believes it is well placed to increase its market share in the region.

Suertia

Spanish operator Suertia, which was acquired by French operator France Pari in 2016, ceased its operations with Kambi in early June 2017. The financial impact for Kambi is insignificant.

EGR B2B Award Winner

Kambi was named the winner of the 'Sports Betting Supplier 2017' category at the EGR* B2B Awards 2017 in June. This is an extremely positive result for Kambi as not only does it reaffirm its position as the industry's leading B2B Sportsbook provider, but it also recognises the strong 12 months Kambi enjoyed in both winning new customers and improving the quality of its Sportsbook services.

Following Q2, Kambi is in a stronger position than ever before and looks forward with confidence to delivering operational excellence and strong financial performance, together with its operators.

* EGR is the online gaming industry's leading information and membership networking group.

Market trends – UK market update

Despite its already vast size, the UK online betting market continues to expand. According to data published by the British regulator in May, online betting revenues were £1.71bn (€1.95bn) during the 12 months to September 2016 – up from the £1.56bn amassed during the previous reporting period.

To put that number into perspective, the UK market is worth approximately double the aggregated annual online betting revenues of Italy (€350m), Spain (€230m), France (€350m) and Portugal (€70m). In short, the UK is the largest regulated market in the world and therefore remains a primary focus for Tier 1 Sportsbooks.

However, increased taxes and tightened regulations in the UK have seen margins come under pressure like never before. As a consequence, operators have had to review their business models with many either pooling resources through M&A, or outsourcing some of their 'commoditised' operations to third-parties to alleviate cost pressures.

In the first instance, we have seen those active in large-scale consolidation postpone product upgrade projects in order to prioritise the often time-consuming combination and integration of technology systems and platforms. These delays have naturally had an adverse impact on the quality of product, creating a window of opportunity for others in the market.

During this time, Kambi has continued to build and advance its UK product, both in terms of its localised offer and scalable differentiation capabilities. This has not only seen Kambi partners win market share through a more competitive and distinctive UK product, but has made Kambi an increasingly attractive alternative to both consolidation manoeuvres and less flexible third-party solutions.

With further taxes and regulatory restrictions around the corner, the downward pressure on UK margin will only increase. As such, we believe operators will continue to migrate towards high-quality outsourced Sportsbook and technology services, and particularly to those with a proven track record of success in the market.

Events after Q2

888sport

Kambi announced an extension to its contract with 888 Holdings, where Kambi will continue to provide its premium Sportsbook and technology services to the operator's leading 888sport brand for the longer term.

This multi-year deal cements Kambi's position as the leading supplier to Tier 1 operators in regulated markets and secures long-term revenue for Kambi from a key customer.

The new commercial terms are valid as from 1 January 2017. During the first six months of 2017 the new terms will impact Kambi's revenues, leading to a reduction of €1m. Kambi expects these terms, together with the quality of the Kambi Sportsbook, to lead to long-term security for both parties.

Financial review

Revenue

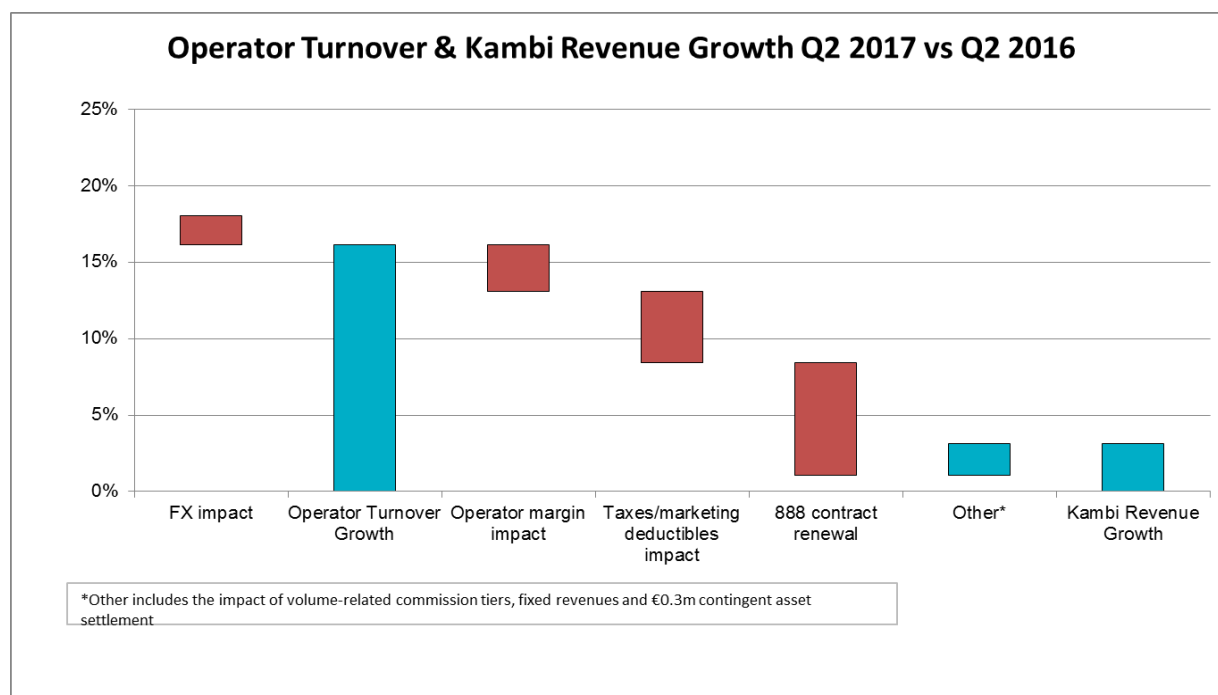
Revenue represents fees received for sports betting services rendered to Kambi's operators. In the second quarter of 2017, revenue was €14.1 (13.7) million. For the first half year 2017, revenue was €28.3 (26.9) million. 52% of revenue was derived from regulated markets.

The aforementioned application of the new 888 contract terms resulted in an impact on revenue of €1 million for the first six months of 2017 (€1 million effect comprising €0.4 million adjustment to Q1 2017 revenue and €0.6 million to Q2 2017). In addition, during Q2 2017 the contingent asset disclosed in Kambi's 2016 annual report was settled resulting in a €0.3 million one-off positive revenue impact (included within 'other' in the graph below).

Kambi charges its operators a fee based on a number of variables including fixed fees, the number of live events offered and commission based on a revenue share of operators' Gross Gaming Revenue less deductible costs, such as marketing and tax. The most significant part of Kambi's revenue comes from the revenue share element. The operator margin of 6.3% was lower than the margin in Q2 2016 of 6.6%, which directly impacted Kambi's revenue.

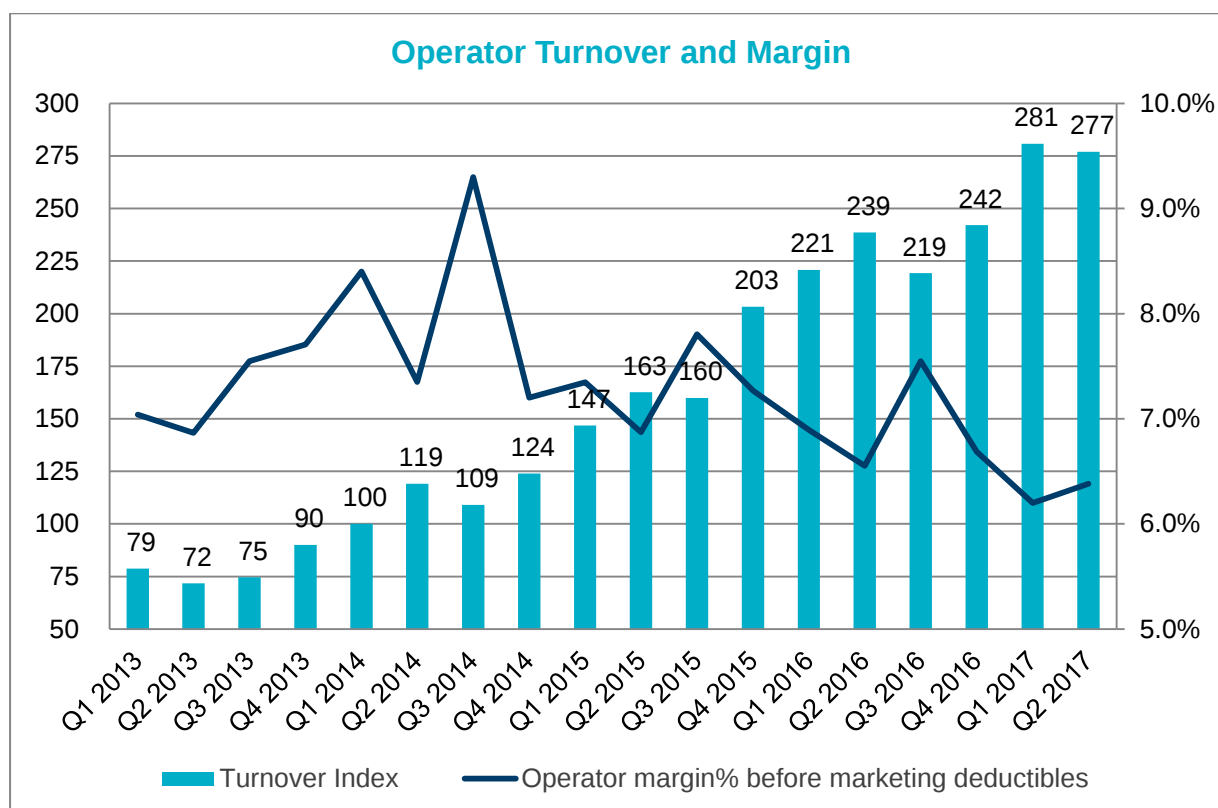
To promote and support growth, some of the customer contracts include tiers with lower commission rates on the higher levels of their sports betting revenues. The tiered commission levels run on a yearly basis depending on the contractual year. The growth in the business of many of the operators resulted in a lower effective commission rate in Q2 2017 than in Q2 2016. This, along with the part of revenues which are fixed (around 10% of total revenues) and not linked to the growth in operators' businesses, resulted in Kambi's revenues increasing by 3% year-on-year.

The graph below demonstrates how the growth in operator turnover ultimately results in Kambi's revenue growth.



Operator trading analysis

In the interest of commercial sensitivity, Kambi presents its customers' sports betting turnover as an index, called The Kambi Turnover Index, with the first quarter of 2014 indexed at 100. The graph below shows the index since Q1 2013 and also illustrates Kambi's operators' quarterly betting margin.



The operator turnover for the second quarter of 2017 showed a solid performance with an increase of 16% to 277, compared with 239 for the second quarter of 2016. This is despite the tough comparison this quarter as Q2 2016 included Euro 2016, which contributed 11% to the turnover. This continues the momentous increase in operator turnover growth as it reaches its second highest level in turnover since inception.

The operator margin increased to 6.3% compared to 6.2% in Q1 2017. The quarter was affected by volatile margins with player-friendly outcomes mainly in the major football leagues.

At Kambi, we aim for the optimal margin to drive turnover growth for our operators, in order to maximise their financial performance both short-term and long-term.

Currency effects

Kambi's principal currency is the Euro, which is also the reporting currency. However, we have both cost and revenue in certain other currencies, such as SEK, NOK and GBP. In the second quarter of 2017 the British pound remained stable against the Euro, in contrast to the second quarter of 2016 whereby the British pound depreciated significantly against the Euro due to the vote for Brexit in June 2016.

Whilst the majority of the players of Kambi's operators are based outside the UK, a weakened pound does decrease the reported value of Kambi's revenues from players in the UK; similarly, the reported value of Kambi's costs in sterling is decreased by a fall in the pound. The reported value of financial assets held in GBP is also decreased compared to Q2 2016.

Operating expenses

Operating expenses are a combination of activity-related costs and fixed costs; the main expenses are salaries, office costs, live information feeds, consultant costs and amortisation. Operating expenses for the second quarter of 2017 were €13.8 (11.7) million and €26.7 (23.0) million for the first half year 2017.

Staff costs have increased from Q2 2016 due to an increase in headcount from the expansion of staff in trading and product development, allowing us to continually improve and expand our technical expertise and Sportsbook product. This is in line with our communicated strategy of investment to create a strong business proposition. Other costs have also increased by €1.4 million to €5.7 million due primarily to new office leases being taken in London, Stockholm and Romania towards the end of 2016 and the start of 2017, and the continuing increase in the number of live events being offered requiring the purchase of live events data.

Operating profit

Operating profit for the second quarter of 2017 was €0.3 (2.0) million, with a margin of 2% (14%), and €1.6 (3.9) million for the first half year 2017, with a margin of 6% (15%).

Capitalised development costs

In the second quarter of 2017, development expenditure of €2.1 (2.1) million was capitalised, bringing the total for the first half year 2017 to €4.2 (4.0) million. These capitalised development costs are amortised over 3 years, starting in the year the costs are incurred. The amortisation charge this quarter was €1.6 (1.4) million, and €3.2 (2.7) million for the first half year 2017.

Profit before tax

Profit before tax for the second quarter of 2017 was €0.2 (1.9) million. Profit before tax for the first half year 2017 was €1.5 (3.8) million.

Taxation

The tax expense for the second quarter of 2017 was €0.1 (0.1) million. The tax expense for the first half year 2017 was €0.3 (0.2) million.

Profit after tax

Profit after tax for the second quarter of 2017 was €0.1 (1.8) million. Profit after tax for the first half year 2017 was €1.2 (3.6) million.

Financial position and cash flow

The net cash position at 30 June 2017 was €22.8 (20.3) million.

Cash flow from operating and investing activities (excluding working capital) amounted to €-0.5 (0.1) million for the second quarter of 2017 and €0.3 (1.5) million for the first half year 2017. Trade and other receivables at 30 June 2017 were €12.2 (11.9) million. This includes 2 months of invoices to most of Kambi's operators, due to the timing of the issue of invoices at the end of each calendar month.

Personnel

Kambi had 594 (493) employees equivalent to 579 (465) full time employees at 30 June 2017, across offices in Malta, Bucharest, London, Manila, Stockholm and Sydney.

Main shareholders

These are the six largest shareholders as at 15 July 2017:

<i>Name</i>	<i>Shares</i>	<i>% of total shares</i>
Veralda Investment Ltd	6,281,710	21.03
Swedbank Robur Fonder	2,823,958	9.45
Lannebo Fonder	2,447,735	8.19
Bodenholm Master	1,573,280	6.55
Keel Capital	1,544,773	5.17
Fidelity Nordic Fund	1,422,511	4.76

Financial information

The financial information has been presented in accordance with International Financial Reporting Standards as adopted by the European Union. All numbers in this report are unaudited. All numbers in this report are shown in Euro (€) and all the numbers in brackets refer to the equivalent period in the previous year.

Financial calendar

1 November 2017	Q3 report
14 February 2018	Q4 report

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About Kambi

Kambi Group plc is a B2B supplier of managed sports betting services on a proprietary software platform, providing premium turnkey sports betting services to gaming operators. Kambi's product encompasses a broad offering from front end through to odds compiling and risk management. The company's current coverage includes more than 185,000 live betting events and 300,000 pre-match events per year covering 65 different sports from all over the world. Kambi utilises a best of breed security approach, with guiding principles from ISO 27001. Kambi is eCOGRA certified. Kambi Group plc is listed on First North at Nasdaq Stockholm under the symbol "KAMBI". Kambi's Certified Advisor is Redeye AB.

Legal disclaimer

Kambi does not give any forecasts. Certain statements in this report are forward-looking and the actual outcomes may be materially different. In addition to the factors discussed, other factors could have an impact on actual outcomes. Such factors include developments for customers, competitors, the impact of economic and market conditions, national and international legislation and regulations, fiscal regulations, the effectiveness of copyright for computer systems, technological developments, fluctuation in exchange rates, interest rates and political risks.

Publication

The information in this report is such that Kambi Group plc is required to disclose under the EU Directive of Market Abuse Regulation, the Swedish Securities Market Act and rules for companies listed on the First North at Nasdaq Stockholm.

CONSOLIDATED INCOME STATEMENT

€ '000

	Q2 2017	Q2 2016	Jan - Jun 2017	Jan - Jun 2016	Jan - Dec 2016
Revenue	14,095	13,664	28,341	26,936	56,003
Staff costs	-6,522	-6,085	-12,533	-12,074	-21,821
Amortisation	-1,639	-1,392	-3,211	-2,732	-5,668
Other operating expenses	-5,667	-4,233	-10,954	-8,222	-19,708
Profit from operations	267	1,954	1,643	3,908	8,806
Investment income	2	4	6	8	14
Finance costs	-79	-78	-157	-156	-313
Profit before tax	190	1,880	1,492	3,760	8,507
Income tax	-71	-93	-291	-208	-994
Profit after tax	119	1,787	1,201	3,552	7,513

CONSOLIDATED STATEMENT OF COMPREHENSIVE**INCOME**

€ '000

	Q2 2017	Q2 2016	Jan - Jun 2017	Jan - Jun 2016	Jan - Dec 2016
Profit after tax for the period	119	1,787	1,201	3,552	7,513
Other comprehensive income:					
Currency translation adjustments taken to equity	-218	96	-131	-182	-790
Actuarial loss on employee defined benefit scheme	-	-	-	-	24
Comprehensive income for the period	-99	1,883	1,070	3,370	6,747

CONSOLIDATED STATEMENT OF FINANCIAL POSITION
€ '000

	30 Jun 2017	30 Jun 2016	31 Dec 2016
ASSETS			
Non-current assets			
Intangible assets	10,970	9,401	10,025
Property, plant and equipment	3,631	2,127	3,760
Deferred tax assets	1,303	2,067	1,302
	15,904	13,595	15,087
Current assets			
Trade and other receivables	12,175	11,946	9,140
Cash and cash equivalents	30,165	27,533	32,388
	42,340	39,479	41,528
Total assets	58,244	53,074	56,615
EQUITY AND LIABILITIES			
Capital and reserves			
Share capital	89	89	89
Share premium	53,467	53,273	53,273
Other reserves	1,628	788	1,486
Currency translation reserve	-1,083	-344	-953
Retained earnings	-12,720	-17,882	-13,921
Total equity	41,381	35,924	39,974
Non-current liabilities			
Convertible bond	7,360	7,273	7,317
Other liabilities	52	51	49
Deferred tax liabilities	154	388	154
	7,566	7,712	7,520
Current liabilities			
Trade and other payables	8,223	7,187	7,788
Deferred revenue	-	403	-
Tax liabilities	1,074	1,848	1,333
	9,297	9,438	9,121
Total liabilities	16,863	17,150	16,641
Total equity and liabilities	58,244	53,074	56,615

CONSOLIDATED STATEMENT OF CASH FLOWS

€ '000

	Q2 2017	Q2 2016	Jan - Jun 2017	Jan - Jun 2016	Jan - Dec 2016
OPERATING ACTIVITIES					
Profit from operations	267	1,954	1,643	3,908	8,806
<i>Adjustments for:</i>					
Depreciation of property, plant and equipment	254	274	640	520	1,157
Amortisation of intangible assets	1,639	1,392	3,211	2,732	5,668
Share-based payment	83	75	143	164	350
Operating cash flows before movements in working capital	2,243	3,695	5,637	7,324	15,981
(Increase)/decrease in trade and other receivables	383	-1,692	-3,038	-1,523	1,283
(Decrease)/increase in trade and other payables	-352	479	775	38	527
(Decrease)/increase in other liabilities	-	1	-	2	-1
(Decrease)/increase in deferred revenue	-	-190	-	403	-
Cash flows from operating activities	2,274	2,293	3,374	6,244	17,790
Income taxes paid net of tax refunded	-488	-444	-557	-644	-865
Interest income received	-2	1	-8	5	14
Net cash generated from operating activities	1,784	1,850	2,809	5,605	16,939
INVESTING ACTIVITIES					
Purchases of property, plant and equipment	-154	-1,000	-591	-1,111	-3,428
Development and acquisition costs of intangible assets	-2,058	-2,116	-4,156	-4,035	-7,577
Net cash used in investing activities	-2,212	-3,116	-4,747	-5,146	-11,005
FINANCING ACTIVITIES					
Proceeds from issue of new shares	-	-	194	-	-
Interest paid	-237	-225	-237	-225	-225
Net cash used in financing activities	-237	-225	-43	-225	-225
Net increase in cash and cash equivalents	-665	-1,491	-1,981	234	5,709
Cash and cash equivalents at beginning of period	31,113	28,928	32,388	27,481	27,481
Effect of foreign exchange differences	-283	96	-242	-182	-802
Cash and cash equivalents at end of period	30,165	27,533	30,165	27,533	32,388

**CONSOLIDATED STATEMENT OF CHANGES
IN EQUITY**

€ '000

	Q2 2017	Q2 2016	Jan - Jun 2017	Jan - Jun 2016	Jan - Dec 2016
Opening balance at beginning of period	41,397	33,966	39,974	32,390	32,390
<i>Comprehensive income</i>					
Profit for the period	119	1,787	1,201	3,552	7,513
<i>Other comprehensive income:</i>					
Translation adjustment	-218	96	-131	-182	-790
Actuarial loss on employee defined benefits	-	-	-	-	24
	-99	1,883	1,070	3,370	6,747
<i>Transactions with owners</i>					
Share options - value of employee services	83	75	143	164	350
Other (share premium)	-	-	194	-	-
Deferred tax on share options	-	-	-	-	487
	83	75	337	164	837
Closing balance at end of period	41,381	35,924	41,381	35,924	39,974

KEY RATIOS

This table is for information only and does not form part of the condensed financial statements

	Q2 2017	Q2 2016	Jan - Jun 2017	Jan - Jun 2016	Jan - Dec 2016
Operator turnover as index of Q1 2014	277	237	n/a	n/a	n/a
Operating (EBIT) margin, %	2%	14%	6%	15%	16%
EBITDA (€ m)	2.2	3.6	5.5	7.2	15.6
EBITDA margin, %	15%	26%	19%	27%	28%
Equity/assets ratio, %	71%	68%	71%	68%	71%
Employees at period end	594	493	594	493	525
Earnings per share (€)	0.004	0.060	0.040	0.119	0.253
Fully diluted earnings per share (€)	0.004	0.058	0.039	0.116	0.246
Number of shares at period end	29,875,197	29,741,197	29,875,197	29,741,197	29,741,197
Fully diluted number of shares at period end	30,557,606	30,568,863	30,557,606	30,568,863	30,605,809
Average number of shares	29,875,197	29,741,197	29,808,197	29,741,197	29,741,197
Average number of fully diluted shares	30,546,698	30,614,456	30,612,166	30,587,326	30,582,383