

Kambi Group plc

Q1 Report 2017

Kambi

Q1 Report 2017 (unaudited)

Financial Summary

- Revenue amounted to €14.2 (13.3) million for the first quarter of 2017, an increase of 7%
- Operating profit (EBIT) for the first quarter of 2017 was €1.4 (2.0) million, with a margin of 10% (15%)
- Profit after tax amounted to €1.1 (1.8) million for the first quarter of 2017
- Earnings per share for the first quarter of 2017 were €0.036 (0.059)
- Cash flow from operating and investing activities (excluding working capital) amounted to €0.8 (1.4) million for the first quarter of 2017

Key Highlights

- Strong operator turnover growth of 27%
- Continued solid cash flow generation
- Many events with player-friendly outcomes led to a below average trading margin
- Agreement signed with Greentube – a subsidiary of Novomatic - for its online B2C operations across Europe
- Kambi awarded the ISO 27001:2013 certification, demonstrating its commitment to high security standards



"I'm very pleased to see continued success from our operators, as demonstrated by their ongoing rapid growth trend.

The latter part of the quarter resulted in an unusually high number of player-friendly outcomes in the major football leagues, which impacted the trading margin. It is in the nature of the business for the trading margin to fluctuate between quarters depending on the result of sporting events.

The underlying strong performance and momentum within the company is unaffected by these events. This makes me confident in our strategy and business model which creates value for our operators.

As mentioned in the Q4 2016 report, we are delighted to have signed a contract with Greentube in February and look forward to helping expand its online sports betting offering with Kambi's premium Sportsbook across Europe.

We continue to develop our Sportsbook to carry on delivering an exceptional experience for the end users." says Kristian Nylén, CEO of Kambi.

First quarter financial breakdown

Summary

	Q1 2017 €m	Q1 2016 €m	Jan - Dec 2016 €m
Revenue	14.2	13.3	56.0
Operating result	1.4	2.0	8.8
Operating margin	10%	15%	16%
Result after tax	1.1	1.8	7.5
Cash flow ¹	0.8	1.4	4.1
Net cash ²	23.8	21.7	25.1
	€	€	€
Earnings per share	0.036	0.059	0.253

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

² Total cash at period end less convertible bond

Q1 Highlights

As highlighted in the trading update published 5 April 2017, in Q1 Kambi was affected by an exceptionally low trading margin of 5.9% (6.7%) after marketing deductibles (please see page 4). This is the lowest quarterly margin seen since Kambi's inception and directly impacts Kambi's revenue and EBIT. The margin was adversely affected by the player friendly results in the major football leagues during the latter part of the quarter, where pre-match accumulators further accentuated the negative outcome. Whilst the turnover generated by Kambi's operators increased by 27% compared to Q1 2016, the effect of the low trading margin was an increase in revenue for Kambi of 7% compared to Q1 2016.

In February 2017, Kambi signed a contract with Greentube, a subsidiary of Novomatic, Europe's leading gaming technology group. Kambi will offer its state-of-the art sports betting service to Greentube's online B2C brands in regulated European markets such as Spain, Italy, UK, Germany and Romania.

In March 2017, Kambi was awarded the ISO 27001:2013 certification. Its standards require Kambi to assess and continuously evaluate information security risks. The certification provides a robust framework which helps Kambi to manage regulatory and legal requirements and is a prerequisite for many public procurement processes.

Market development

Regulation

The Swedish government has been presented with a report of an investigation carried out by

a group of experts that looked into the potential re-regulation of the country's gambling market. The report proposes to replace the current state monopoly on gambling with a licensing system that would include a tax rate of 18% of GGR. If the government decides to follow the proposal, licences for betting could become effective on 1 January 2019, with software providers also being required to obtain a licence, similar to the UK model.

Although the gaming duty might affect existing revenues in this jurisdiction, Kambi sees this as a positive development: we are looking forward to the potential opportunities to bring in new customers that become available with a new regulation.

Kambi initiatives

Retail – bringing the online pace to the retail space

Kambi's retail programme brings a new, faster and competitive solution to the offline world and during the last quarter it reached further milestones. Our retail offering is based on years of experience gained in the online world, where having the best user experience is critical.

A new user interface for the Self Service Betting Terminals was rolled out during the quarter. It has kept all the value driving assets from the online solution while being optimised for the specific retail environment.

The retail platform has gone through an evolution that has led to greater scalability and easier and faster deployment of new terminals. Regardless of the scale of deployment, Kambi quickly accommodates the different operational needs of retail operators, while at the same time maintaining Kambi's scalability and quality.

Market trend

The demands of millennials

The gambling industry is slowly embracing the opportunities offered by the millennial generation and is seeking to adapt to the needs and interests of this demanding audience. From a sports betting perspective, we cater to the millennials through responding to relevant traits important to them.

This consumer group generally has short attention spans driven by increased usage of multiple devices plus demand for instant gratification and "on-the-go" action. Kambi's offering and user experience are designed to accommodate these needs and to drive player engagement. This includes the delivery of faster services, such as reduced countdown and settlement times, and quicker access to relevant offers across a large range of markets.

We continuously respond to changing consumer preferences, from the offering of pre-match and live betting on popular new sports such as eSports, to faster betting opportunities like instant betting and more in-depth offers, for example player specials. Kambi uses its wealth of data to understand player behaviour and optimise the user experience.

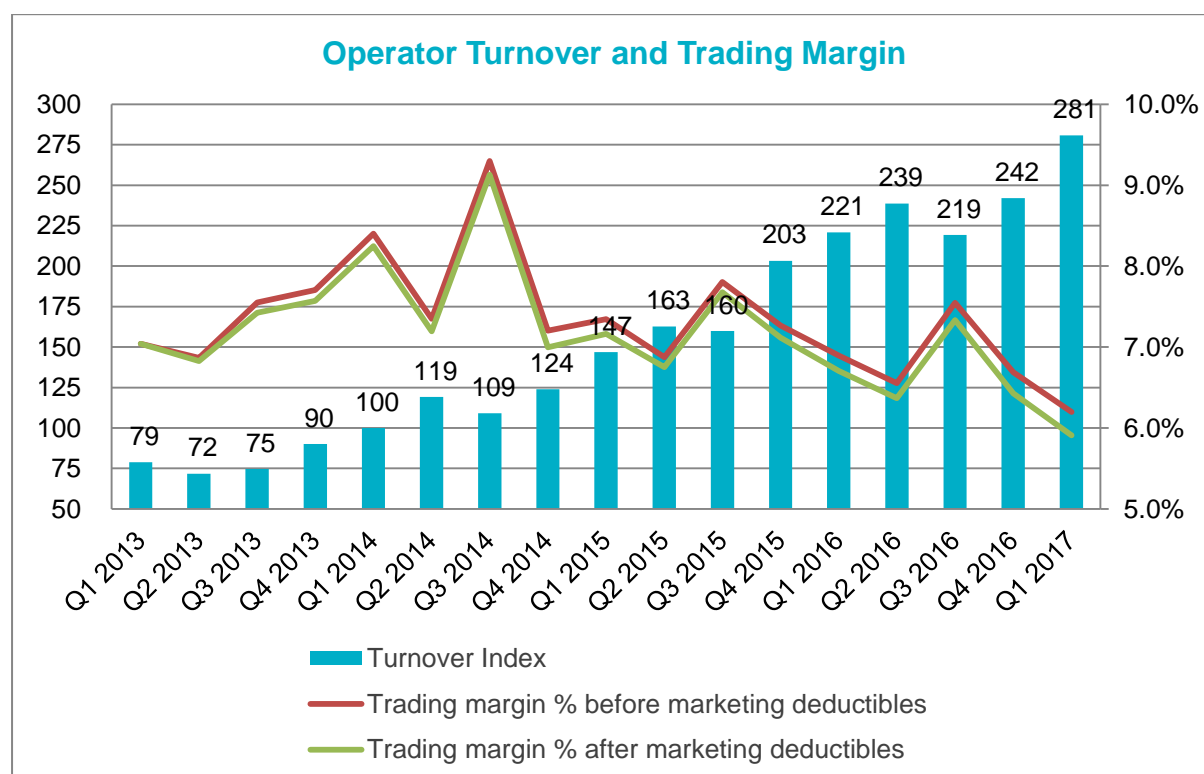
Financial review

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 illustrates Kambi's operators' quarterly trading margin. 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.

Historically, the trading margin presented has been after the deduction of Sportsbook-specific marketing costs as these were of a lower level. Due to the growth in relative size of certain operators, the impact of these marketing incentives has increased. As such, going forward Kambi will present its operators' trading margin before the deduction of such marketing costs. This represents the actual trading margin achieved by the operators before any deductions.

The operator trading margin below demonstrates the margin achieved both before and after the deduction of marketing costs.



The operator turnover for the first quarter of 2017 continued at a robust pace with an increase of 27% to 281, compared with 221 for the first quarter of 2016. This shows the strong momentum our operators experience with the Kambi Sportsbook.

The trading margin before marketing deductibles fell to a historical low of 6.2% compared to 6.9% in Q1 2016. The main reason for the lower than expected margins in the quarter was the outcome of sporting events, which worked in favour of the players, ie our operators' end users.

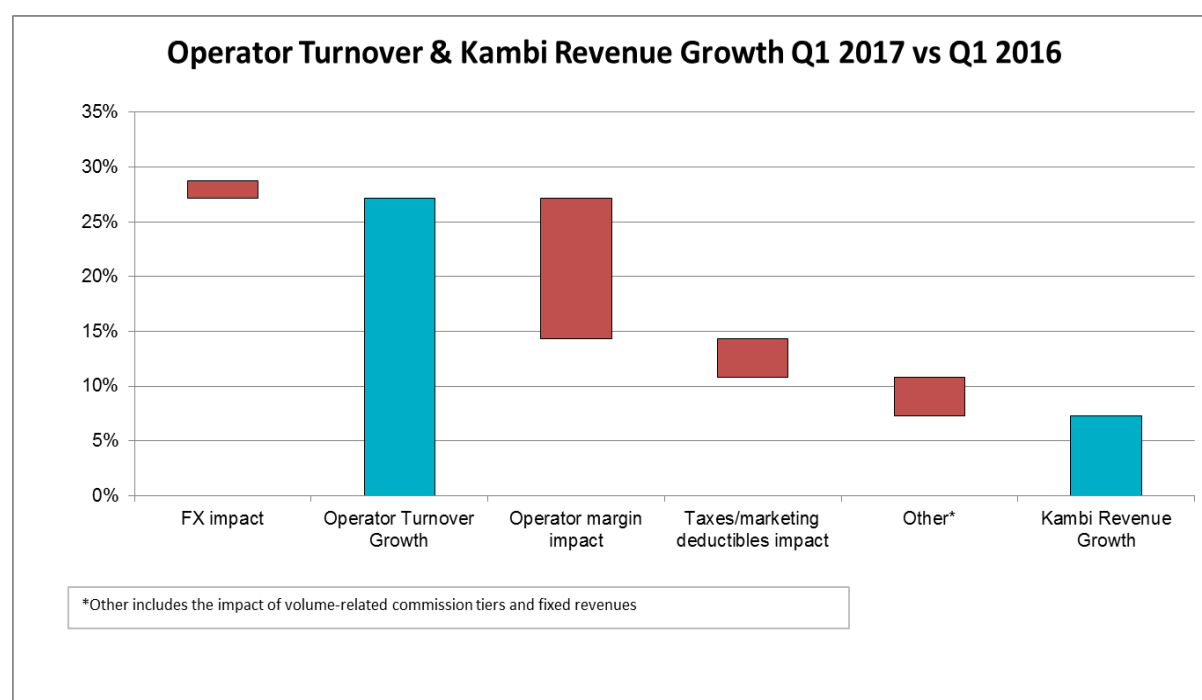
Revenue

Revenue represents fees received for sports betting services rendered to Kambi's operators. In the first quarter of 2017, revenue was €14.2 (13.3) million.

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.

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 Q1 2017 than in Q1 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 7% year-on-year.

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



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 first quarter of 2017 the British pound stabilised against the Euro, in contrast to the comparison with the first quarter of 2016 whereby the British pound depreciated significantly against the Euro. 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 Q1 2016.

Operating expenses

Operating expenses for the first quarter of 2017 were €12.9 (11.3) million. Staff costs were €5.4 (5.5) million. Headcount has increased since Q1 2016 as we continue to invest in additional traders to expand our trading bandwidth and product development staff to continuously improve and expand our technological and product development. However, in the quarter, costs are offset by the FX impact of our UK based staff and reduced costs related to staff bonuses. Other operating expenses include office related costs and information supplier costs and have increased from €4.5 million to €5.9 million due to factors such as new office leases being taken on and a significant increase in the number of live events being offered, which require information to be purchased.

Operating profit

Operating profit for the first quarter of 2017 was €1.4 (2.0) million, with a margin of 10% (15%).

Capitalised development costs

In the first quarter of 2017, development expenditure of €2.1 (1.9) million was capitalised. 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 (1.3) million.

Profit before tax

Profit before tax for the first quarter of 2017 was €1.3 (1.9) million.

Taxation

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

Profit after tax

Profit after tax for the first quarter of 2017 was €1.1 (1.8) million.

Financial position and cash flow

The net cash position at 31 March 2017 was €23.8 (21.7) million.

Cash flow from operating and investing activities (excluding working capital) amounted to €0.8 (1.4) million for the first quarter of 2017. Trade and other receivables at 31 March 2017 were €12.6 (10.3) million. This includes two 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 571 (467) employees equivalent to 553 (441) full time employees at 31 March 2017, across offices in Malta, Bucharest, London, Manila, Stockholm and Sydney.

Main shareholders

These are the six largest shareholders as at 31 March 2017:

<i>Name</i>	<i>Shares</i>	<i>% of total shares</i>
Veralda Investment Ltd	5,861,710	19.62
Swedbank Robur Fonder	2,823,958	9.45
Lannebo Fonder	2,575,625	8.62
Bodenholm Master	1,573,280	5.70
Keel Capital	1,497,795	5.05
Fidelity Nordic Fund	1,414,111	4.73

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

17 May	AGM 10.00 CET at Kambi's office, Wallingatan 2, Stockholm
26 July 2017	Q2 report
1 November 2017	Q3 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 165,000 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 interim report follows the required rules for companies trading on First North at Nasdaq Stockholm. This market is not a "regulated market" as defined in EU legislation.

CONSOLIDATED INCOME STATEMENT

€ '000

	Q1 2017	Q1 2016	Jan - Dec 2016
Revenue	14,246	13,272	56,003
Staff costs	-5,369	-5,528	-21,821
Amortisation	-1,572	-1,340	-5,668
Other operating expenses	-5,927	-4,451	-19,708
Profit from operations	1,378	1,953	8,806
Investment income	4	5	14
Finance costs	-78	-78	-313
Profit before tax	1,304	1,880	8,507
Income tax	-220	-115	-994
Profit after tax	1,084	1,765	7,513

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

€ '000

	Q1 2017	Q1 2016	Jan - Dec 2016
Profit after tax for the period	1,084	1,765	7,513
Other comprehensive income:			
Currency translation adjustments taken to equity	85	-277	-790
Actuarial loss on employee defined benefit scheme	-	-	24
Comprehensive income for the period	1,169	1,488	6,747

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

€ '000

	31 Mar 2017	31 Mar 2016	31 Dec 2016
ASSETS			
<i>Non-current assets</i>			
Intangible assets	10,551	8,676	10,025
Property, plant and equipment	3,812	1,401	3,760
Deferred tax assets	1,322	1,876	1,302
	15,685	11,953	15,087
<i>Current assets</i>			
Trade and other receivables	12,560	10,254	9,140
Cash and cash equivalents	31,112	28,928	32,388
	43,672	39,182	41,528
Total assets	59,357	51,135	56,615
EQUITY AND LIABILITIES			
<i>Capital and reserves</i>			
Share capital	89	89	89
Share premium	53,467	53,273	53,273
Other reserves	1,545	714	1,486
Currency translation reserve	-868	-440	-953
Retained earnings	-12,837	-19,670	-13,921
Total equity	41,396	33,966	39,974
<i>Non-current liabilities</i>			
Convertible bond	7,339	7,252	7,317
Other liabilities	52	50	49
Deferred tax liabilities	154	350	154
	7,545	7,652	7,520
<i>Current liabilities</i>			
Trade and other payables	8,914	6,877	7,788
Deferred revenue	-	593	-
Tax liabilities	1,502	2,047	1,333
	10,416	9,517	9,121
Total liabilities	17,961	17,169	16,641
Total equity and liabilities	59,357	51,135	56,615

CONSOLIDATED STATEMENT OF CASH FLOWS

€ '000

	Q1 2017	Q1 2016	Jan - Dec 2016
OPERATING ACTIVITIES			
Profit from operations	1,378	1,953	8,806
<i>Adjustments for:</i>			
Depreciation of property, plant and equipment	386	246	1,157
Amortisation of intangible assets	1,572	1,340	5,668
Share-based payment	59	88	350
Operating cash flows before movements in working capital	3,395	3,627	15,981
(Increase)/decrease in trade and other receivables	-3,421	169	1,283
(Decrease)/increase in trade and other payables	1,128	-440	527
(Decrease)/increase in other liabilities	-	1	-1
(Decrease)/increase in deferred revenue	-	593	-
Cash flows from operating activities	1,102	3,950	17,790
Income taxes paid net of tax refunded	-69	-200	-865
Interest income received	-6	5	14
Net cash generated from operating activities	1,027	3,755	16,939
INVESTING ACTIVITIES			
Purchases of property, plant and equipment	-438	-111	-3,428
Development and acquisition costs of intangible assets	-2,098	-1,919	-7,577
Net cash used in investing activities	-2,536	-2,030	-11,005
FINANCING ACTIVITIES			
Proceeds from issue of new shares	194	-	-
Interest paid	-	-	-225
Net cash used in financing activities	194	-	-225
Net increase in cash and cash equivalents	-1,315	1,725	5,709
Cash and cash equivalents at beginning of period	32,388	27,481	27,481
Effect of foreign exchange differences	39	-278	-802
Cash and cash equivalents at end of period	31,112	28,928	32,388

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

€ '000

	Q1 2017	Q1 2016	Jan - Dec 2016
Opening balance at beginning of period	39,974	32,390	32,390
<i>Comprehensive income</i>			
Profit for the period	1,084	1,765	7,513
<i>Other comprehensive income:</i>			
Translation adjustment	85	-277	-790
Actuarial loss on employee defined benefits	-	-	24
	1,169	1,488	6,747
<i>Transactions with owners</i>			
Share options - value of employee services	59	88	350
Other (share premium)	194	-	-
Deferred tax on share options	-	-	487
	253	88	837
Closing balance at end of period	41,396	33,966	39,974

KEY RATIOS

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

	Q1 2017	Q1 2016	Jan - Dec 2016
Operator turnover as index of Q1 2014	281	221	n/a
Operating (EBIT) margin, %	10%	15%	16%
EBITDA (€ m)	3.3	3.5	15.6
EBITDA margin, %	23%	27%	28%
Equity/assets ratio, %	70%	66%	71%
Employees at period end	571	467	525
Earnings per share (€)	0.036	0.059	0.253
Fully diluted earnings per share (€)	0.035	0.058	0.246
Number of shares at period end	29,875,197	29,741,197	29,741,197
Fully diluted number of shares at period end	30,673,702	30,616,815	30,605,809
Average number of shares	29,808,197	29,741,197	29,741,197
Average number of fully diluted shares	30,508,129	30,577,757	30,582,383