

Kambi Group plc

Q2 Report 2016

Kambi

Q2 Report 2016 (unaudited)

Financial Summary

- Revenue amounted to €13.7 (10.7) million for the second quarter of 2016, an increase of 28%
- Operating profit (EBIT) for the second quarter of 2016 was €2.0 (0.8) million, with a margin of 14% (7%)
- Profit after Tax amounted to €1.8 (0.5) million for the second quarter of 2016
- Earnings per share for the second quarter of 2016 were €0.060 (0.018)
- Cash flow from operating and investing activities (excluding working capital) amounted to €0.1 (0.2) million for the second quarter of 2016

Key Highlights

- Exceptional operator turnover growth of 46% year-on-year
- Successful launch of all 3 new operators - LeoVegas, Rank Group and Mr Green - ahead of Euro 2016
- New customer signing: Spanish gaming group R. Franco



“Euro 2016 was a great success for Kambi both financially and operationally. Our operators saw a remarkable increase in turnover. We delivered exciting new features as part of our fantastic offering with excellent technical performance.”

During the quarter we worked together with our three new operators to launch their Sportsbooks in time for Euro 2016 and we look forward to being an instrumental part of their future success.

We experienced some volatility in the results of the key sporting events during the quarter, which impacted the operator margins. Match results in the main football leagues in the first part of the quarter were unfavourable, whilst Euro 2016 delivered much higher margins.

We have also seen successful implementation of our HTML5 client, which will enable substantial possibilities for differentiation between our operators’ front-end user interfaces. This will empower them to align their offering with their brand and be innovative with their Sportsbook.

In July we signed a contract with Spanish gaming group R. Franco. We are delighted to be its new Sportsbook supplier for both online and retail betting.

Investment in people and technology will continue as we work on building our service and network of operators to drive growth. We are very well positioned as the premier supplier of managed sports betting services.” says Kristian Nylén, CEO of Kambi.

Second quarter financial breakdown

Summary

	Q2	Q2	Jan - Jun	Jan - Jun	Jan - Dec
	2016	2015	2016	2015	2015
	€m	€m	€m	€m	€m
Revenue	13.7	10.7	26.9	20.7	47.7
Operating result	2.0	0.8	3.9	1.6	7.4
Operating margin	14%	7%	15%	8%	16%
Result after tax	1.8	0.5	3.6	1.1	6.2
Cash flow ¹	0.1	0.2	1.5	1.2	6.2
Net cash ²	20.3	15.3	20.3	15.3	20.3
	€	€	€	€	€
Earnings per share	0.060	0.018	0.119	0.038	0.208

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

² Total cash at period end less convertible bond

Q2 Highlights

The Euro 2016 football tournament was the major contributor to the strong performance in the quarter. There are more details in the dedicated section on the event below.

The turnover of our operators increased by 46% compared to the same period last year. This shows the significant power the Kambi Sportsbook gives our operators to transform revenues. As we continue to invest in people and technology to stay at the forefront of the market, we are evolving our service in collaboration with our operators to create the best betting experience for their players and drive financial performance.

Ahead of Euro 2016 we went live with the three new operators: LeoVegas, Rank Group and Mr Green. The joint effort with the operators made the implementation process fast and smooth and ensured they were able to operate their new Sportsbooks in time for the big event.

Euro 2016

Euro 2016 delivered many new records and became our biggest event so far. Throughout the entire event, Kambi had one of the highest average paybacks while still maintaining the operators' margin. The scalability of our technical platform made it possible to offer a significant increase in betting offers with many new features.

Euro 2016 is the highlight in this year's betting calendar, with the majority of the matches played during Q2. The tournament contributed 11% of the overall operator turnover highlighting the importance of the tournament and the focus on every individual match compared to the regular schedule. Kambi can accommodate this by leveraging both its technology and know-how in order to offer a superior product supporting our operators in both retention and acquisition of new players.

On Pre-match betting, Kambi constantly opened the betting markets ahead of the competition. In the final between Portugal and France, Kambi had over 750 quality offers online compared, for example, to a Saturday match in the Premier League, which normally has around 250 offers. On In-play betting, significantly more traders than for a normal event were dedicated to each match in order to offer a superior product. This made it possible for Kambi to innovate and introduce the possibility for players to continue to bet even when a penalty was awarded, keeping all markets open – for example, when Rooney was getting ready to take his penalty against Iceland, Kambi's operators were the only ones able to keep the offering open.

Instant betting

During the tournament we saw amazing growth in our 'instant betting' markets. Ever since Kambi introduced the cutting edge 'team to win next throw-in' market at the 2014 World Cup, we have found that players who favour this type of market place more bets and generate more revenue overall. Kambi has been steadily expanding this area and for Euro 2016 we geared up to the next level to ensure we provided the best experience available anywhere.

Paybacks

Kambi priced the main markets with a 97.5% theoretical payback, leveraging our advanced risk management capabilities to ensure correct positioning throughout. We also worked with our operators, empowering them to create market-specific price promotions both on Pre-match and In-play betting; the tournament was a great success in demonstrating the power of that partnership. The general market trend is that the payback on certain markets is increasing during major tournaments to attract players.

Other trends

With Leicester City having won the Premier League, the players soon found a new underdog to favour in Iceland. As the tournament progressed, Iceland became one of the most popular teams for players and three of Iceland's matches ended up on the top 10 turnover list.

Another trend in the tournament was the growing attention on player-related markets. Players themselves can be just as strong brands as the teams. During the tournament, Kambi's operators could leverage this trend using our purpose-built Euro widgets.

Events after Q2

On 26 July Kambi signed a contract with the Spanish gaming group R. Franco. The deal will see Kambi replace R. Franco's existing Sportsbook which is currently present in the Spanish market under the Wanabet.es brand and will drive expansion through its omni-channel offering across Spain and Latin America.

Kambi initiatives

Each quarter we aim to highlight an initiative in the business and for Q2 we will discuss our brand messaging. As part of a larger branding review, Kambi has put renewed focus on how to communicate our brand and what service we deliver to our customers. We have identified five messages:

- We are the *secure* choice

We believe partnering with a secure supplier is essential for business continuity and Kambi has set its service up to excel in this area. As a public company, regulatory compliance and integrity are top priority. We invest heavily in our technical systems and use the highest quality data feeds.

- We are committed to the *player experience*

Sports betting is a passion for the employees and management, there is a genuine drive to provide the ultimate sports betting service for players.

- We are *data driven*

Data is at the heart of our business. Everything we do is based on interpreting data, for example: algorithms for pricing, risk management and front end development.

- We *empower* our operators

We understand the necessity of giving our operators great tools to provide a unique experience in line with their brand and we are making great strides to support them.

- We drive *financial performance*

Most importantly, we have a proven record of supporting operators such as Unibet and 888 to significantly outperform the market.

Market development

Market consolidation

There continues to be significant M&A activity in the gaming industry. We believe this trend towards consolidation, as well as outsourcing, is likely to continue as it is a typical feature of a maturing industry. Kambi is well placed to benefit from this trend.

Brexit

We do not expect the recent Brexit vote to have any material impact on Kambi's operational model or business landscape. Kambi has operations in multiple international jurisdictions, thereby reducing exposure to the UK. There may be currency effects caused by the referendum vote, as the group's reporting currency is the Euro. The British pound has weakened significantly against the Euro since the referendum. Whilst the majority of the players of Kambi's operators are based outside the UK, a weakened pound will reduce the value of Kambi's revenues for players in the UK; similarly, Kambi's costs in sterling, notably its UK staff and office costs, are also reduced by a fall in the pound.

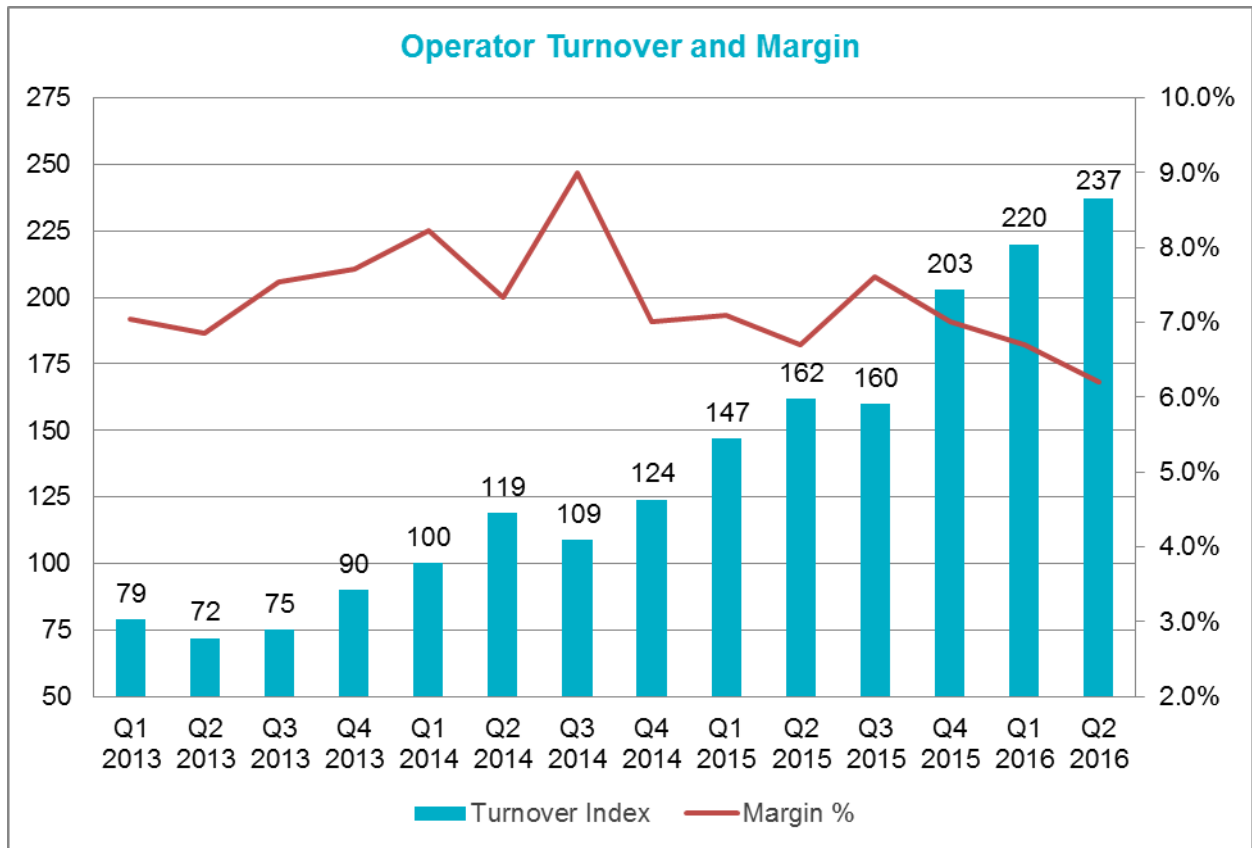
Financial review

Revenue

Revenue represents fees received for sports betting services rendered to Kambi's operators. In the second quarter of 2016, revenue was €13.7 (10.7) million. For the first half year 2016, revenue was €26.9 (20.7) million. Kambi charges its operators a monthly fee, based on a number of variables, including fixed fees, the number of live events offered and a commission based on operators' profits generated. Some of the contracts with operators include tiers for reduced commission rates on the upper parts of their sports betting profits in the contractual year. This impact will vary on a quarterly basis, depending on the growth of specific operators and the timing of their contractual years.

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 second 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 2016 showed an excellent performance with an increase of 46% to 237, compared with 162 for the second quarter of 2015. This continues the momentous increase in operator turnover growth seen in the last couple of quarters. The operator margin was 6.2% compared to 6.7% in Q2 2015. The margins were impacted by volatility in the quarter, mainly due to the results of the Premier League where many of the favourites were winning. On top of that, there was a big pay-out on Leicester City to win the Premier League which impacted margins further. The strong margins seen during Euro 2016 contributed to the overall operator margin for the quarter.

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.

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 2016 were €11.7 (9.9) million and €23.0 (19.0) million for the first half year 2016. A large proportion of operating expenses is salaries. The increase in salaries can be attributed to the planned increase in full time staff, as part of the continued development of the Kambi product (in particular to support the significant increase in the number of live events offered to the customers).

Operating profit

Operating profit for the second quarter of 2016 was €2.0 (0.8) million, with a margin of 14% (7%), and €3.9 (1.6) for the first half year 2016, with a margin of 15% (8%).

Capitalised development costs

In the second quarter of 2016, development expenditure of €2.1 (1.7) million was capitalised, bringing the total for the first half year 2016 to €4.0 (2.9) million. These capitalised development costs are amortised over 3 years, starting in the year the costs are incurred. The amortisation charge this quarter was €1.4 (1.3) million, and €2.7 (2.6) million for the first half year 2016.

Profit before tax

Profit before tax for the second quarter of 2016 was €1.9 (0.7) million. Profit before tax for the first half year 2016 was €3.8 (1.5) million.

Taxation

The tax expense for the second quarter of 2016 was €0.1 (0.2) million. The tax expense for the first half year 2016 was €0.2 (0.3) million. Kambi has in place share option schemes which enable it to claim a deduction against UK corporation tax for the full amount of the financial gain made by UK employees who exercise their options. Based on the likely option vesting patterns and the share price at the balance sheet date, a deduction of €0.2m is made against the Q2 tax charge.

Profit after tax

Profit after tax for the second quarter of 2016 was €1.8 (0.5) million. Profit after tax for the first half year 2016 was €3.6 (1.1) million.

Financial position and cash flow

The net cash position at 30 June 2016 was €20.3 (15.3) million.

Cash flow from operating and investing activities (excluding working capital) amounted to €0.1 (0.2) million for the second quarter of 2016 and €1.5 (1.2) million for the first half year 2016. Trade and other receivables at 30 June 2016 were €11.9 (9.5) 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 493 (414) employees equivalent to 465 (386) full time employees at 30 June 2016, across offices in Malta, Bucharest, London, Manila, Stockholm and Sydney.

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

2 November 2016	Q3 report
8 February 2017	Q4 report
26 April 2017	Q1 report
26 July 2017	Q2 report
1 November 2017	Q3 report
7 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 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

	Q2 2016	Q2 2015	Jan - Jun 2016	Jan - Jun 2015	Jan - Dec 2015
Revenue	13,664	10,681	26,936	20,652	47,687
Gross profit	13,664	10,681	26,936	20,652	47,687
Operating expenses	-11,710	-9,904	-23,028	-19,038	-40,291
Profit from operations	1,954	777	3,908	1,614	7,396
Investment income	4	5	8	7	32
Finance costs	-78	-78	-156	-155	-325
Profit before tax	1,880	704	3,760	1,466	7,103
Income tax	-93	-164	-208	-335	-906
Profit after tax	1,787	540	3,552	1,131	6,197

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

€ '000

	Q2 2016	Q2 2015	Jan - Jun 2016	Q2 2015	Jan - Dec 2015
Profit after tax for the period	1,787	540	3,552	1,131	6,197
Other comprehensive income:					
Currency translation adjustments taken to equity	96	37	-182	118	16
Actuarial loss on employee defined benefit scheme	-	-	-	-	-20
Comprehensive income for the period	1,883	577	3,370	1,249	6,193

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

€ '000

	30 Jun 2016	30 Jun 2015	31 Dec 2015
ASSETS			
<i>Non-current assets</i>			
Intangible assets	9,401	7,436	8,098
Property, plant and equipment	2,127	1,602	1,536
Deferred tax assets	2,067	565	1,617
	13,595	9,603	11,251
<i>Current assets</i>			
Trade and other receivables	11,946	9,525	10,423
Cash and cash equivalents	27,533	22,472	27,481
	39,479	31,997	37,904
Total assets	53,074	41,600	49,155
EQUITY AND LIABILITIES			
<i>Capital and reserves</i>			
Share capital	89	89	89
Share premium	53,273	53,273	53,273
Other reserves	788	624	625
Currency translation reserve	-344	-61	-163
Retained earnings	-17,882	-26,500	-21,434
Total equity	35,924	27,425	32,390
<i>Non-current liabilities</i>			
Convertible bond	7,273	7,190	7,231
Other liabilities	51	48	50
Deferred tax liabilities	388	133	315
	7,712	7,371	7,596
<i>Current liabilities</i>			
Trade and other payables	7,187	5,670	7,261
Deferred revenue	403	391	-
Tax liabilities	1,848	743	1,908
	9,438	6,804	9,169
Total liabilities	17,150	14,175	16,765
Total equity and liabilities	53,074	41,600	49,155

CONSOLIDATED STATEMENT OF CASH FLOWS

€ '000

	Q2 2016	Q2 2015	Jan - Jun 2016	Jan - Jun 2015	Jan - Dec 2015
OPERATING ACTIVITIES					
Profit from operations	1,954	777	3,908	1,614	7,396
<i>Adjustments for:</i>					
Depreciation of property, plant and equipment	274	239	520	480	995
Amortisation of intangible assets	1,392	1,275	2,732	2,573	5,187
Share-based payment	75	9	164	18	39
Operating cash flows before movements in working capital	3,695	2,300	7,324	4,685	13,617
(Increase)/decrease in trade and other receivables	-1,692	-1,614	-1,523	-2,212	-3,110
(Decrease)/increase in trade and other payables	575	-403	-144	133	1,448
(Decrease)/increase in other liabilities	1	12	2	28	9
(Decrease)/increase in deferred revenue	-190	391	403	391	-
Cash flows from operating activities	2,389	686	6,062	3,025	11,964
Income taxes paid net of tax refunded	-444	-198	-644	-287	-585
Interest income received	1	-	5	-	32
Net cash generated from operating activities	1,946	488	5,423	2,738	11,411
INVESTING ACTIVITIES					
Purchases of property, plant and equipment	-1,000	-136	-1,111	-330	-718
Development and acquisition costs of intangible assets	-2,116	-1,716	-4,035	-2,866	-6,142
Net cash used in investing activities	-3,116	-1,852	-5,146	-3,196	-6,860
FINANCING ACTIVITIES					
Interest paid	-225	-225	-225	-225	-225
Net cash used in financing activities	-225	-225	-225	-225	-225
Net increase in cash and cash equivalents	-1,395	-1,589	52	-683	4,326
Cash and cash equivalents at beginning of period	28,928	24,061	27,481	23,155	23,155
Cash and cash equivalents at end of period	27,533	22,472	27,533	22,472	27,481

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

€ '000

	Q2 2016	Q2 2015	Jan - Jun 2016	Jan - Jun 2015	Jan - Dec 2015
Opening balance at beginning of period	33,966	26,839	32,390	26,158	26,158
Comprehensive income					
Profit for the period	1,787	540	3,552	1,131	6,197
<i>Other comprehensive income:</i>					
Translation adjustment	96	37	-182	118	16
Actuarial loss on employee defined benefits	-	-	-	-	-20
	1,883	577	3,370	1,249	6,193
Transactions with owners					
Share options - value of employee services	75	9	164	18	39
	75	9	164	18	39
Closing balance at end of period	35,924	27,425	35,924	27,425	32,390

KEY RATIOS

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

	Q2 2016	Q2 2015	Jan - Jun 2016	Jan - Jun 2015	Jan - Dec 2015
Operator turnover as index of Q1 2014	237	162	n/a	n/a	n/a
Operating (EBIT) margin, %	14%	7%	15%	8%	16%
EBITDA (€ m)	3.6	2.3	7.2	4.7	13.6
EBITDA margin, %	26%	21%	27%	23%	28%
Equity/assets ratio, %	68%	66%	68%	66%	66%
Employees at period end	493	414	493	414	441
Earnings per share (€)	0.060	0.018	0.119	0.038	0.208
Fully diluted earnings per share (€)	0.058	0.018	0.116	0.037	0.203
Number of shares at period end	29,741,197	29,741,197	29,741,197	29,741,197	29,741,197
Fully diluted number of shares at period end	30,568,863	30,481,892	30,568,863	30,481,892	30,588,034
Average number of shares	29,741,197	29,741,197	29,741,197	29,741,197	29,741,197
Average number of fully diluted shares	30,614,456	30,491,909	30,587,326	30,494,356	30,481,403