

Kambi Group plc

Q3 Report 2016

Kambi

Q3 Report 2016 (unaudited)

Financial Summary

- Revenue amounted to €14.8 (12.8) million for the third quarter of 2016, an increase of 15%, and €41.7 (33.5) million for the period January to September 2016
- Operating profit (EBIT) for the third quarter of 2016 was €3.1 (2.5) million, with a margin of 21% (19%), and €7.0 (4.1) million for the period January to September 2016, with a margin of 17% (12%)
- Profit after tax amounted to €2.7 (2.1) million for the third quarter of 2016, and €6.3 (3.3) million for the period January to September 2016
- Earnings per share for the third quarter of 2016 were €0.092 (0.071), and €0.211 (0.109) for the period January to September 2016
- Cash flow from operating and investing activities (excluding working capital) amounted to €1.6 (2.2) million for the third quarter of 2016, and €3.1 (3.4) million for the period January to September 2016

Key Highlights

- Solid operator turnover growth of 37% year-on-year
- Outstanding results from Euro 2016 tournament
- Partnership with NOVOMATIC Lottery Solutions to jointly provide sports betting powered by Kambi
- The contract with Spanish operator Luckia is coming to an end and will not be renewed



"I am really pleased to deliver an excellent set of results for Q3. Our unparalleled service drove a 37% growth in operator turnover, which led to strong results for Kambi of 25% growth in operating profit."

I am highly encouraged by the partnership we have signed with the prestigious gaming company NOVOMATIC Lottery Solutions, where we are joining forces to create a state-of-the-art omni-channel solution for government regulated lotteries, which is a key target segment for Kambi. This partnership strengthens our outreach to potential clients in the lottery sector.

Part of our growth strategy is to build on our retail offering. We have seen tangible results as our retail service is being rolled out in several regions and is gaining momentum." says Kristian Nylén, CEO of Kambi.

Third quarter financial breakdown

Summary

	Q3 2016	Q3 2015	Jan - Sep 2016	Jan - Sep 2015	Jan - Dec 2015
	€m	€m	€m	€m	€m
Revenue	14.8	12.8	41.7	33.5	47.7
Operating result	3.1	2.5	7.0	4.1	7.4
Operating margin	21%	19%	17%	12%	16%
Result after tax	2.7	2.1	6.3	3.3	6.2
Cash flow ¹	1.6	2.2	3.1	3.4	6.2
Net cash ²	22.0	17.0	22.0	17.0	20.3
	€	€	€	€	€
Earnings per share	0.092	0.071	0.211	0.109	0.208

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

² Total cash at period end less convertible bond

Q3 Highlights

Our operators' turnover increased by 37% compared to the same period last year. Q3 is normally a quiet quarter from a sports calendar perspective. This year it was somewhat improved by the end of Euro 2016 and the Olympics.

In Euro 2016, Kambi enabled its operators to offer a significant increase in betting offers with many new features and we had one of the highest average paybacks in the market, while still maintaining and optimising the operators' margin.

The Olympics proved to be another success: our operators were offered an outstanding service, with Kambi offering odds on all events with a broad range of betting opportunities.

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.

Euro 2016

We experienced a strong finish to Euro 2016 where the last six matches were played in the third quarter.

There were many upsets in the latter part of the tournament, which contributed to a healthy operator margin. Wales beating Belgium and the draw after 90 minutes between Germany and Italy, as well as Portugal's surprise 1–0 victory over France to win the tournament, supported the overall result.

In a tournament such as Euro 2016, there is great focus on every individual match. Kambi can accommodate this by leveraging both its technology and know-how in order to offer a superior service.

The Olympics

For the Olympics, apart from the regular betting sports (such as football, tennis and basketball) Kambi was offering sports that are not part of our regular service and covered all events. Offering uncommon sports is challenging, but provides differentiation possibilities to the operators and ensures there is always something for the player to bet on.

The performance of the Kambi Sportsbook at this event shows the breadth, quality and capacity of our service, where our operators can offer a product which stands out from the competition and empowers them to choose where to focus their marketing efforts. The financial impact of the Olympics is limited for our operators. However, it is an important marketing event and creates an opportunity for them to engage with a broader audience.

Events after Q3

- On 18 October, Kambi signed a Memorandum of Understanding with NOVOMATIC Lottery Solutions (NLS), a wholly owned subsidiary of leading gaming technology group NOVOMATIC. The co-operation, which is branded 'NLS Sports Betting – Powered by Kambi', will be showcased for the first time at the World Lottery Summit in Singapore in November.
- Kambi's contract with Spanish operator Luckia terminates at the end of November and will not be renewed.
- Spanish international gaming group R. Franco signed an omni-channel contract with Kambi in July 2016. The group's online brand wanabet.es will soon go live with the Kambi powered Sportsbook and preparations for launch are well underway.
- NagaWorld in Cambodia entered an agreement with Kambi in 2014 for a fully managed over-the-counter Sportsbook service and has recently extended its contract for the long-term, including expansion plans to its current offering.

Kambi initiatives

Retail channel expansion

Kambi's retail offering continues to gain positive momentum in the global land-based sector. For many operators, the majority of turnover derives from land-based channels. To meet the demands of the operators and players, we maintain our ambition to develop a best-in-class retail sports betting experience. We support retail betting in various regulations, on numerous devices and in various different environments, such as betting shops, casinos, sport arenas and bars.

Operators using the Kambi retail solution will offer a seamless experience to their players, ensuring the same thrilling sports betting experience regardless of device used to place a bet. By using the same platform and trading organisation for all channels and devices, we are also able to deliver an outstanding range of bet offers to the retail players.

To further enhance our position as a full service provider, we recently partnered with NLS. The rationale is to provide a powerful service both to the online and the retail segments of the government regulated lotteries sector by combining the offerings from both companies. This strategic partnership will offer this sector a state-of-the-art solution with a superior user experience. The lottery sector is a key target for Kambi and the combined offering will boost the potential of acquiring operators within this field.

With the NLS partnership, the recently signed R. Franco deal, the contract extension with NagaWorld and the 'proof of concept' with Televisa, we are expanding Kambi's footprint in the retail market.

Kambi's strategy is to provide the best Sportsbook in the market, seeking to work and grow with operators and partners who share our ambition of offering a premium quality product to end users in both retail and online channels.

Market development

Trend watch

Sports betting is an industry that for years has been held back by the complexity of scaling technology. It is evident the industry is maturing and consumers' expectations are becoming more demanding, largely due to digitalisation and more sophisticated use of data. This behaviour affects all businesses, regardless of industry. With improved connectivity and faster, more secure access, the end user is demanding more refined entertainment. Companies are competing for their time in a world of limitless entertainment at their fingertips. There is a clear challenge to cut through the noise by being relevant and offering a personalised experience that keeps the users coming back.

To meet this opportunity, Kambi's scalable co-creation strategy is to drive this development in the sports betting value chain. Together with Kambi's core services and technology, our operators will be able to innovate within their Sportsbooks by personalising and differentiating their offerings.

Latin America update

Kambi's footprint in Latin America is expanding as we continue with our strategy to grow in both online and retail channels in this region. Our service is well suited for the Latin American market as it covers the relevant sports and languages and has local sales presence. Various countries in this region are well advanced in their legislation processes whilst others are considering further regulations in the future.

In Mexico, a bill seeking to introduce a gaming licence regime for the country is awaiting the approval of the federal Senate before it can be formally enacted as law. This would open up the online sports betting market.

During the first half of 2016, Colombia completed the regulatory framework for online gambling services, establishing the legal and financial requirements for online gambling operators, with licences expected to be available in late 2016.

Amongst other countries well advanced in their legislation processes, Paraguay's government has drafted a bill seeking to establish an updated legislative framework for the operation of gambling services in the country.

This ongoing trend and our approach towards industry regulation support the growth prospects for Kambi and its operators in this region.

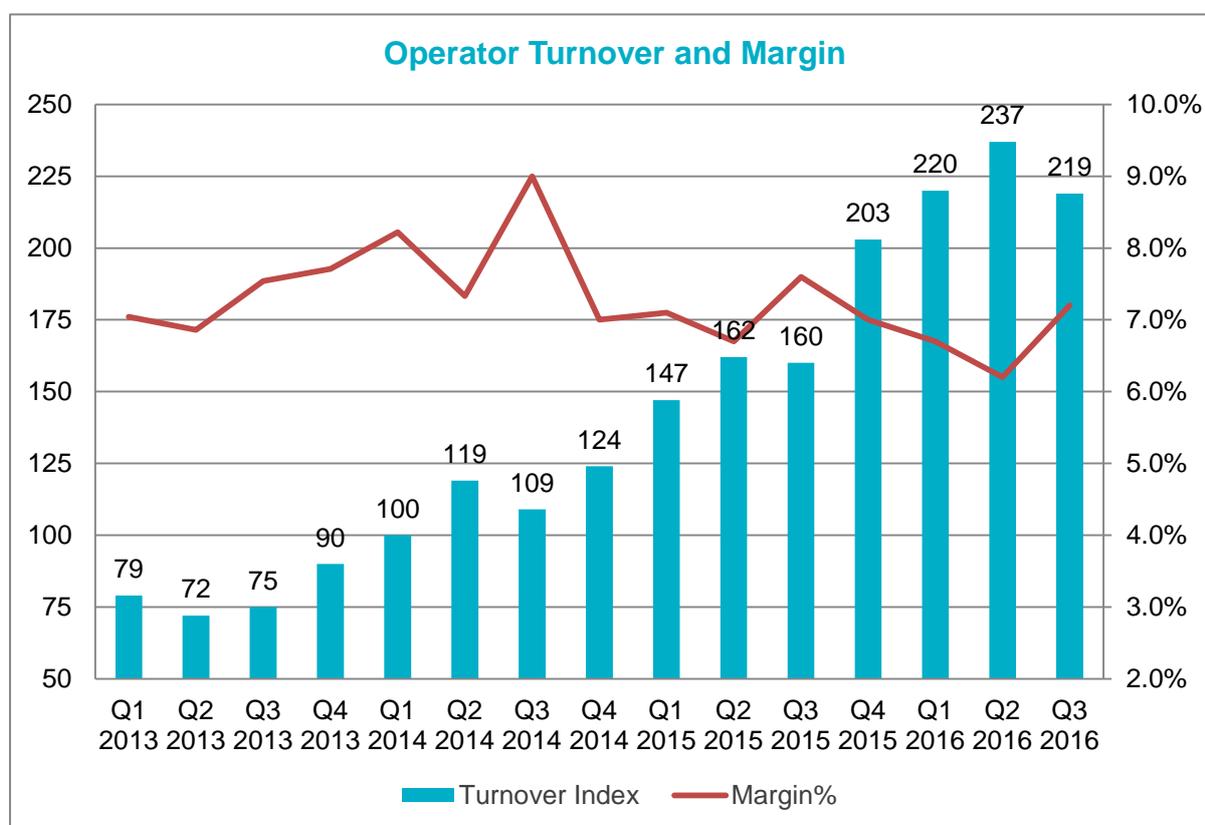
Financial review

Revenue

Revenue represents fees received for sports betting services rendered to Kambi's operators. In the third quarter of 2016, revenue was €14.8 (12.8) million. For the period January to September 2016, revenue was €41.7 (33.5) 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 higher levels of their sports betting profits. Kambi's revenues are also impacted by a higher level of betting duties which we share with the operators as we support their growth into newly regulated markets, for example Romania.

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 betting margin.



The operator turnover for the third quarter of 2016 mirrored a normal Q3 pattern with an increase of 37% to 219, compared with 160 for the third quarter of 2015. The operator margin was 7.2% compared to 7.6% in Q3 2015. The margins were positively impacted, compared to recent quarters, by strong results in the final matches of Euro 2016, the Olympics and tennis.

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

In recent months, the British pound has weakened significantly against the Euro. Whilst the majority of the players of Kambi's operators are based outside the UK, a weakened pound does reduce the value of Kambi's revenues from players in the UK; similarly, the reported value of Kambi's costs in sterling, net of the revaluation of financial assets held in GBP, is also reduced by a fall in the pound. The net impact is not material.

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 third quarter of 2016 were €11.7 (10.4) million and €34.7 (29.4) million for the period January to September 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 service.

Operating profit

Operating profit for the third quarter of 2016 was €3.1 (2.5) million, with a margin of 21% (19%), and €7.0 (4.1) for the period January to September 2016, with a margin of 17% (12%).

Capitalised development costs

In the third quarter of 2016, development expenditure of €1.5 (1.5) million was capitalised, bringing the total for the period January to September 2016 to €5.5 (4.3) 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 €4.2 (3.9) million for the period January to September 2016.

Profit before tax

Profit before tax for the third quarter of 2016 was €3.0 (2.4) million. Profit before tax for the period January to September 2016 was €6.8 (3.9) million.

Taxation

The tax expense for the third quarter of 2016 was €0.3 (0.3) million. The tax expense for the period January to September 2016 was €0.5 (0.6) 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 €0.1m is made against the Q3 tax charge.

Profit after tax

Profit after tax for the third quarter of 2016 was 2.7 (2.1) million. Profit after tax for the period January to September 2016 was €6.3 (3.3) million.

Financial position and cash flow

The net cash position at 30 September 2016 was €22.0 (17.0) million.

Cash flow from operating and investing activities (excluding working capital) amounted to €1.6 (2.2) million for the third quarter of 2016 and €3.1 (3.4) million for the period January to September 2016. The high level of cash outlay on tangible fixed assets in the quarter predominantly related to the fit-out projects for the new offices in London and Bucharest. Trade and other receivables at 30 September 2016 were €10.3 (10.0) 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 512 (433) employees equivalent to 487 (405.5) full time employees at 30 September 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

14 February 2017	Q4 report
26 April 2017	Q1 report
26 July 2017	Q2 report
1 November 2017	Q3 report

Nomination Committee

The Nomination Committee has been updated to reflect Kambi's largest shareholders. The Nomination Committee shall consist of not less than three and not more than five members, of which one shall be the Chairman of the Board of Directors, and shall represent all shareholders.

The Nomination Committee is responsible for reviewing the size, structure and composition of the Board. The Committee also looks at succession planning, the appointment of replacement and/or additional directors and for making the appropriate recommendations to the Board.

The members of the Nomination Committee are:

- Lars Stugemo, Chairman of the Board of Kambi Group plc
- Anders Ström, Veralda Investment Ltd
- Evert Carlsson, Swedbank Robur Fonder
- Mathias Svensson, Keel Capital
- Johan Ståhl, Lannebo Fonder

Shareholders who would like to make proposals to the Nomination Committee may do so via e-mail to: nomination.committee@kambi.com.

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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

	Q3 2016	Q3 2015	Jan - Sep 2016	Jan - Sep 2015	Jan - Dec 2015
Revenue	14,770	12,838	41,706	33,491	47,687
Gross profit	14,770	12,838	41,706	33,491	47,687
Operating expenses	-11,679	-10,375	-34,707	-29,414	-40,291
Profit from operations	3,091	2,463	6,999	4,077	7,396
Investment income	4	18	12	26	32
Finance costs	-77	-77	-233	-233	-325
Profit before tax	3,018	2,404	6,778	3,870	7,103
Income tax	-291	-282	-499	-617	-906
Profit after tax	2,727	2,122	6,279	3,253	6,197

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

€'000

	Q3 2016	Q3 2015	Jan - Sep 2016	Jan - Sep 2015	Jan - Dec 2015
Profit after tax for the period	2,727	2,122	6,279	3,253	6,197
Other comprehensive income:					
Currency translation adjustments taken to equity	-655	-162	-836	-45	16
Actuarial loss on employee defined benefit scheme	-	-	-	-	-20
Comprehensive income for the period	2,072	1,960	5,443	3,208	6,193

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

€'000

	30 Sep 2016	30 Sep 2015	31 Dec 2015
ASSETS			
Non-current assets			
Intangible assets	9,461	7,581	8,098
Property, plant and equipment	3,538	1,589	1,536
Deferred tax assets	2,246	1,048	1,617
	15,245	10,218	11,251
Current assets			
Trade and other receivables	10,331	9,952	10,423
Cash and cash equivalents	29,336	24,242	27,481
	39,667	34,194	37,904
Total assets	54,912	44,412	49,155
EQUITY AND LIABILITIES			
Capital and reserves			
Share capital	89	89	89
Share premium	53,273	53,273	53,273
Other reserves	870	632	625
Currency translation reserve	-1,000	-223	-163
Retained earnings	-15,154	-24,378	-21,434
Total equity	38,078	29,393	32,390
Non-current liabilities			
Convertible bond	7,293	7,210	7,231
Other liabilities	53	59	50
Deferred tax liabilities	378	286	315
	7,724	7,555	7,596
Current liabilities			
Trade and other payables	6,733	6,052	7,261
Deferred revenue	181	189	-
Tax liabilities	2,196	1,223	1,908
	9,110	7,464	9,169
Total liabilities	16,834	15,019	16,765
Total equity and liabilities	54,912	44,412	49,155

CONSOLIDATED STATEMENT OF CASH FLOWS

€'000

	Q3 2016	Q3 2015	Jan - Sep 2016	Jan - Sep 2015	Jan - Dec 2015
OPERATING ACTIVITIES					
Profit from operations	3,091	2,463	6,999	4,077	7,396
<i>Adjustments for:</i>					
Depreciation of property, plant and equipment	307	252	827	732	995
Amortisation of intangible assets	1,435	1,310	4,166	3,882	5,187
Share-based payment	82	9	245	27	39
Operating cash flows before movements in working capital	4,915	4,034	12,237	8,718	13,617
(Increase)/decrease in trade and other receivables	1,616	-427	92	-2,639	-3,110
(Decrease)/increase in trade and other payables	-1,167	185	-1,309	317	1,448
(Decrease)/increase in other liabilities	1	11	3	39	9
(Decrease)/increase in deferred revenue	-221	-203	182	189	-
Cash flows from operating activities	5,144	3,600	11,205	6,624	11,964
Income taxes paid net of tax refunded	-135	-136	-779	-422	-585
Interest income received	6	-	12	-	32
Net cash generated from operating activities	5,015	3,464	10,438	6,202	11,411
INVESTING ACTIVITIES					
Purchases of property, plant and equipment	-1,717	-240	-2,828	-570	-718
Development and acquisition costs of intangible assets	-1,495	-1,454	-5,530	-4,320	-6,142
Net cash used in investing activities	-3,212	-1,694	-8,358	-4,890	-6,860
FINANCING ACTIVITIES					
Interest paid	-	-	-225	-225	-225
Net cash used in financing activities	-	-	-225	-225	-225
Net increase in cash and cash equivalents	1,803	1,770	1,855	1,087	4,326
Cash and cash equivalents at beginning of period	27,533	22,472	27,481	23,155	23,155
Cash and cash equivalents at end of period	29,336	24,242	29,336	24,242	27,481

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

€'000

	Q3 2016	Q3 2015	Jan - Sep 2016	Jan - Sep 2015	Jan - Dec 2015
Opening balance at beginning of period	35,924	27,424	32,390	26,158	26,158
Comprehensive income					
Profit for the period	2,727	2,122	6,279	3,253	6,197
<i>Other comprehensive income:</i>					
Translation adjustment	-655	-162	-836	-45	16
Actuarial loss on employee defined benefits	-	-	-	-	-20
	2,072	1,960	5,443	3,208	6,193
Transactions with owners					
Share options - value of employee services	82	9	245	27	39
	82	9	245	27	39
Closing balance at end of period	38,078	29,393	38,078	29,393	32,390

KEY RATIOS

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

	Q3 2016	Q3 2015	Jan - Sep 2016	Jan - Sep 2015	Jan - Dec 2015
Operator turnover as index of Q1 2014	219	160	n/a	n/a	n/a
Operating (EBIT) margin, %	21%	19%	17%	12%	16%
EBITDA (€m)	4.8	4.0	12.0	8.7	13.6
EBITDA margin, %	33%	31%	29%	26%	28%
Equity/assets ratio, %	69%	66%	69%	66%	66%
Employees at period end	512	433	512	433	441
Earnings per share (€)	0.092	0.071	0.211	0.109	0.208
Fully diluted earnings per share (€)	0.089	0.070	0.205	0.107	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	30,570,928	30,440,491	30,570,928	30,440,491	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	30,563,077	30,454,529	30,586,644	30,480,934	30,481,403