

Kambi Group plc

Q4 Report 2016

Kambi

Financial Summary

- Revenue amounted to €14.3 (14.2) million for the fourth quarter of 2016 and €56.0 (47.7) million for the full year 2016, an increase of 17%
- Operating profit (EBIT) for the fourth quarter of 2016 was €1.8 (3.3) million, with a margin of 13% (23%), and €8.8 (7.4) million for the full year 2016, with a margin of 16% (16%)
- Profit after tax amounted to €1.2 (2.9) million for the fourth quarter of 2016, and €7.5 (6.2) million for the full year 2016
- Earnings per share for the fourth quarter of 2016 were €0.042 (0.099), and €0.253 (0.208) for the full year 2016
- Cash flow from operating and investing activities (excluding working capital) amounted to €1.0 (2.8) million for the fourth quarter of 2016, and €4.1 (6.2) million for the full year 2016

Key Highlights

- Solid 19% turnover growth by our operators
- Revenue was adversely affected by low margins due to football results in December favouring end users
- Agreement signed with Mexican media group Televisa for online, mobile and retail channels
- Agreement signed with Greentube – Novomatic Interactive for online sports betting across Europe
- 7 of our 13 operators included in eGaming Review's annual Power 50 list, the most comprehensive list of the leading operators in the eGaming industry



“As widely reported across the industry, December produced many events with player-friendly outcomes. For our operators, these resulted in lower than average margins in the quarter, which in turn, together with increases in gaming-related taxes, impacted on Kambi’s revenues.

Despite this, I’m very pleased to report that our operators continued to demonstrate the underlying strength of the Kambi Sportsbook and reported solid increases in turnover, even when compared to a strong Q4 2015.

We will continue to invest in our world class Sportsbook offering, to maintain our position as the highest quality service in the market, in an evolving market landscape.

In addition, I’m excited that Kambi has secured its first full contract in Latin America, with the signing of Mexican media giant Televisa, offering our premium Sportsbook across all channels. We are now looking forward to building on this foothold across the region.

We are also delighted to see an immediate impact from our partnership with the Novomatic Group, as we have signed a contract with one of its subsidiaries, Greentube. We will help Greentube expand with Kambi’s premium Sportsbook.

We are confident in our strategy of investing in people and technology to create the best Sportsbook on the market.” says Kristian Nylén, CEO of Kambi.

Fourth quarter financial breakdown Summary

	Q4 2016 €m	Q4 2015 €m	Jan - Dec 2016 €m	Jan - Dec 2015 €m
Revenue	14.3	14.2	56.0	47.7
Operating result	1.8	3.3	8.8	7.4
Operating margin	13%	23%	16%	16%
Result after tax	1.2	2.9	7.5	6.2
Cash flow ¹	1.0	2.8	4.1	6.2
Net cash ²	25.1	20.3	25.1	20.3
	€	€	€	€
Earnings per share	0.042	0.099	0.253	0.208

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

² Total cash at period end less convertible bond

Q4 Highlights

The turnover generated by Kambi's operators increased by a solid 19% compared to Q4 2015. However, the margin was unfavourably affected by the end user friendly outcomes in English football during the latter part of the quarter. The net effect was a small revenue increase for Kambi.

In November, Kambi signed an agreement with the major Mexican media group Televisa for the provision of an omni-channel sports betting service for its "PlayCity" brand. The agreement follows a successful 'proof-of-concept' and is being rolled out in 17 land-based casinos in Mexico. Kambi has effectively translated the online user experience into the retail offering and the expectation is to go live via online and mobile channels during 2017.

In the Q3 report, we mentioned the partnership with Novomatic Lottery Solutions, Europe's leading gaming technology group and part of the Novomatic Group, which was signed in October. The rationale of the partnership is to address the market with a joint solution, using Kambi's Sportsbook and NLS's platform, called 'NLS Sports Betting - Powered by Kambi'. The emphasis will be on attracting the government regulated lottery market with a stronger offering together with NLS. We believe this will be a productive relationship and we have already had a strong start by signing an agreement with Novomatic's subsidiary Greentube for our sports betting services.

Spanish operator R. Franco successfully launched its Wanabet online product with Kambi in November 2016, replacing an existing Sportsbook.

During the quarter 7 out of Kambi's 13 operators were recognised on eGR's Power 50 list with 2 operators making it to the top 10. The Power 50 list is the most comprehensive ranking of the eGaming industry's most powerful operators.

As mentioned in the Q3 report, the contract with Luckia was terminated in early December.

Events after Q4

Kambi signed a contract with Greentube – Novomatic Interactive, which is 100% owned by the Novomatic Group. Greentube Internet Entertainment Solutions is a prominent developer and supplier of gaming solutions. Greentube will add Kambi's premium Sportsbook to its successful online brands across Europe to complement its casino products and attract a new customer segment. The deal is a development of the partnership Kambi entered with the Novomatic Group in October 2016.

Market development

Regulation

At Kambi we expect to see more governments introduce local online gaming licences. This is creating a dynamic that will increase Kambi's addressable market through new local entrants such as land-based gaming groups, media companies and national lotteries.

In Europe alone, we have seen countries such as Spain, Denmark and Italy introduce domestic online gaming licences. Whilst these processes move slowly, we expect more countries to follow suit, with Germany, Sweden and the Netherlands looking to be the most promising.

In Latin America we have seen much change in the market this year with an online licensing regime adopted in Colombia and movement being made in Mexico, Chile, Peru and Brazil, which are all expected to regulate gaming in the short to medium term.

We are also seeing movements towards a more open market in the US, where a bill that proposes to legalise sports betting in New York will be introduced in March. An approval could quickly unlock the potential of this market.

However, there are still many barriers to overcome, not least a federal prohibition dating back to 1992. The prohibition on sports betting in the US has left the sector lagging behind its European counterpart. The appetite for sports betting in the US is undeniable and many of the innovations and lessons Kambi has learned in Europe will have applications in the US as well.

Kambi initiatives

Price differentiation

A big step in our mission to create technology that marries Kambi's Sportsbook's quality and operational excellence with each operator's unique marketing expertise was taken when we launched price differentiation in the quarter. This further enhances the opportunity for our operators to be empowered by tools for innovation and personalisation in their respective offerings.

The Price Differentiation tool allows for the operators to adapt the pricing to their marketing strategy by controlling the payback in order to optimise the return for each regulation they are active in. The operators can strengthen their competitiveness in certain events or choose to earn higher margins in others. The flexibility offered through the Price Differentiation tool strengthens our service proposition to potential new customers.

Efficiency and scalability can still be assured as Kambi will define the maximum allowed odds to ensure high quality risk handling. The addition of the Price Differentiation tool to

Kambi's portfolio has been very well received as operators welcome the possibility to find the mix between pricing and promotion through leveraging their knowledge of the local markets.

Financial review

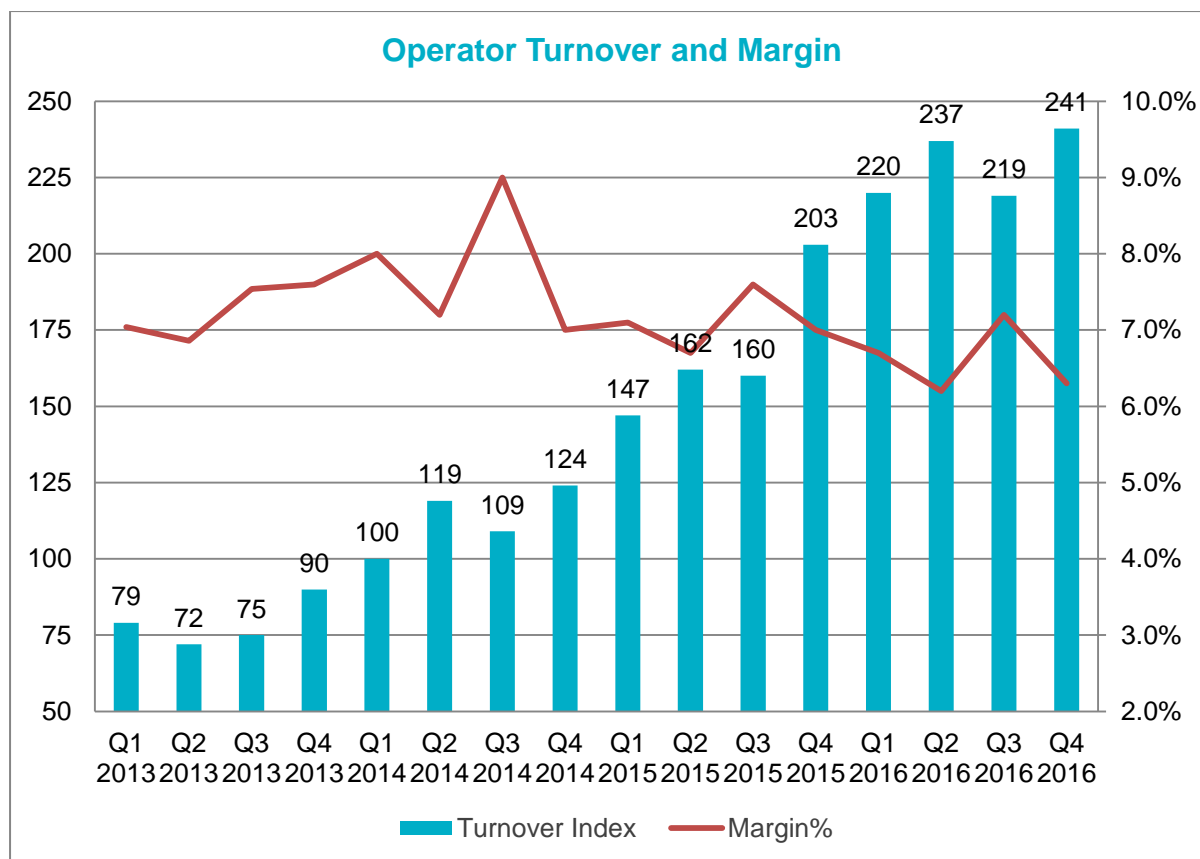
Revenue

Revenue represents fees received for sports betting services rendered to Kambi's operators. In the fourth quarter of 2016, revenue was €14.3 (14.2) million. For the full year 2016, revenue was €56.0 (47.7) 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, with the majority of Kambi's revenues deriving from such commissions. These commissions are based on a percentage share of the net gaming revenue which includes deductions for gaming taxes and in some instances, player incentives related to sports betting.

Some of the contracts with operators include tiers for reduced commission rates on the higher levels of their sports betting profits. As our operators continue to enjoy strong growth, a larger proportion of their revenues are charged at a lower commission rate. Kambi's revenues are also impacted by a higher level of gaming related taxes, which we share with the operators as we support their growth into newly regulated markets.

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. 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.



The full year trend of operator turnover shows the same pattern as 2014, which was also a year with a major football tournament. The operator turnover for the fourth quarter of 2016 mirrored a normal Q4 pattern, with an increase of 19% to 241 compared with 203 for the extraordinarily strong Q4 2015. The operator margin was 6.3% compared to 7.0% in Q4 2015. Significantly higher gaming-related taxes and operator revenue volumes (with the corresponding commission rate changes on the higher tiers) have adversely influenced Kambi's revenue in Q4 2016 versus Q4 2015 when compared to the growth of its operators.

Margins were adversely impacted compared to recent quarters, due primarily to a particularly weak December. Most of the bad results were experienced in late December when outcomes were extremely player friendly, particularly in the Boxing Day round of English football matches.

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. In the fourth quarter of 2016 the British pound stabilised against the Euro, in contrast to the comparison with the fourth quarter of 2015 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, net of the revaluation of financial assets held in GBP, is also decreased by a fall in the pound.

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 fourth quarter of 2016 were €12.5 (10.9) million and €47.2 (40.3) million for the full 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 service. An element of employee remuneration is dependent upon specific internal company performance metrics, and can fluctuate year on year accordingly.

Operating profit

Operating profit for the fourth quarter of 2016 was €1.8 (3.3) million, with a margin of 13% (23%), and €8.8 (7.4) for the full year 2016, with a margin of 16% (16%). Revenues were affected by low margins from our operators due to adverse results in the December football matches, together with an increase in costs as we invest in technology and people to continuously improve our service.

Capitalised development costs

In the fourth quarter of 2016, development expenditure of €2.0 (1.8) million was capitalised, bringing the total for the full year 2016 to €7.6 (6.1) million. These capitalised development costs are amortised over 3 years, starting in the year the costs are incurred. The amortisation charge this quarter was €1.5 (1.3) million, and €5.7 (5.2) million for the full year 2016.

Profit before tax

Profit before tax for the fourth quarter of 2016 was €1.7 (3.2) million. Profit before tax for the full year 2016 was €8.5 (7.1) million.

Taxation

The tax expense for the fourth quarter of 2016 was €0.5 (0.3) million. The tax expense for the full year 2016 was €1.0 (0.9) 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.

Profit after tax

Profit after tax for the fourth quarter of 2016 was 1.2 (2.9) million. Profit after tax for the full year 2016 was €7.5 (6.2) million.

Financial position and cash flow

The net cash position at 31 December 2016 was €25.1 (20.3) million.

Cash flow from operating and investing activities (excluding working capital) amounted to €1.0 (2.8) million for the fourth quarter of 2016 and €4.1 (6.2) million for the full year 2016. Trade and other receivables at 31 December 2016 were €9.1 (10.4) 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 525 (441) employees equivalent to 503.5 (416.1) full time employees at 31 December 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

26 April 2017	Q1 report
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

	Q4 2016	Q4 2015	Jan - Dec 2016	Jan - Dec 2015
Revenue	14,298	14,197	56,003	47,687
Gross profit	14,298	14,197	56,003	47,687
Operating expenses	-12,489	-10,877	-47,197	-40,291
Profit from operations	1,809	3,320	8,806	7,396
Investment income	2	6	14	32
Finance costs	-80	-93	-313	-325
Profit before tax	1,731	3,233	8,507	7,103
Income tax	-496	-289	-994	-906
Profit after tax	1,235	2,944	7,513	6,197

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

€ '000

	Q4 2016	Q4 2015	Jan - Dec 2016	Jan - Dec 2015
Profit after tax for the period	1,235	2,944	7,513	6,197
Other comprehensive income:				
Currency translation adjustments taken to equity	45	60	-790	16
Actuarial loss on employee defined benefit scheme	24	-20	24	-20
Comprehensive income for the period	1,304	2,984	6,747	6,193

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

€ '000

	31 Dec 2016	31 Dec 2015
ASSETS		
<i>Non-current assets</i>		
Intangible assets	10,025	8,098
Property, plant and equipment	3,760	1,536
Deferred tax assets	1,302	1,617
	15,087	11,251
<i>Current assets</i>		
Trade and other receivables	9,140	10,423
Cash and cash equivalents	32,388	27,481
	41,528	37,904
Total assets	56,615	49,155
EQUITY AND LIABILITIES		
<i>Capital and reserves</i>		
Share capital	89	89
Share premium	53,273	53,273
Other reserves	1,486	625
Currency translation reserve	-953	-163
Retained earnings	-13,921	-21,434
Total equity	39,974	32,390
<i>Non-current liabilities</i>		
Convertible bond	7,317	7,231
Other liabilities	49	50
Deferred tax liabilities	154	315
	7,520	7,596
<i>Current liabilities</i>		
Trade and other payables	7,788	7,261
Deferred revenue	-	-
Tax liabilities	1,333	1,908
	9,121	9,169
Total liabilities	16,641	16,765
Total equity and liabilities	56,615	49,155

CONSOLIDATED STATEMENT OF CASH FLOWS

€ '000

	Q4 2016	Q4 2015	Jan - Dec 2016	Jan - Dec 2015
OPERATING ACTIVITIES				
Profit from operations	1,809	3,320	8,806	7,396
<i>Adjustments for:</i>				
Depreciation of property, plant and equipment	331	262	1,157	995
Amortisation of intangible assets	1,502	1,305	5,668	5,187
Share-based payment	105	13	350	39
Operating cash flows before movements in working capital	3,747	4,900	15,981	13,617
(Increase)/decrease in trade and other receivables	1,191	-471	1,284	-3,110
(Decrease)/increase in trade and other payables	1,031	1,130	-276	1,448
(Decrease)/increase in other liabilities	-4	-30	-1	9
(Decrease)/increase in deferred revenue	-182	-189	-	-
Cash flows from operating activities	5,783	5,340	16,988	11,964
Income taxes paid net of tax refunded	-86	-164	-865	-585
Interest income received	2	32	14	32
Net cash generated from operating activities	5,699	5,208	16,137	11,411
INVESTING ACTIVITIES				
Purchases of property, plant and equipment	-600	-147	-3,428	-718
Development and acquisition costs of intangible assets	-2,047	-1,822	-7,577	-6,142
Net cash used in investing activities	-2,647	-1,969	-11,005	-6,860
FINANCING ACTIVITIES				
Interest paid	-	-	-225	-225
Net cash used in financing activities	-	-	-225	-225
Net increase in cash and cash equivalents	3,052	3,239	4,907	4,326
Cash and cash equivalents at beginning of period	29,336	24,242	27,481	23,155
Cash and cash equivalents at end of period	32,388	27,481	32,388	27,481

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

€ '000

	Q4 2016	Q4 2015	Jan - Dec 2016	Jan - Dec 2015
Opening balance at beginning of period	38,078	29,393	32,390	26,158
<i>Comprehensive income</i>				
Profit for the period	1,235	2,944	7,513	6,197
<i>Other comprehensive income:</i>				
Translation adjustment	45	60	-790	16
Actuarial loss on employee defined benefits	24	-20	24	-20
	1,304	2,984	6,747	6,193
<i>Transactions with owners</i>				
Share options - value of employee services	105	13	350	39
Deferred tax on share options	487	-	487	-
	592	13	837	39
Closing balance at end of period	39,974	32,390	39,974	32,390

KEY RATIOS

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

	Q4 2016	Q4 2015	Jan - Dec 2016	Jan - Dec 2015
Operator turnover as index of Q1 2014	241	203	n/a	n/a
Operating (EBIT) margin, %	13%	23%	16%	16%
EBITDA (€ m)	3.6	4.9	15.6	13.6
EBITDA margin, %	25%	34%	28%	28%
Equity/assets ratio, %	71%	66%	71%	66%
Employees at period end	525	441	525	441
Earnings per share (€)	0.042	0.099	0.253	0.208
Fully diluted earnings per share (€)	0.040	0.096	0.246	0.203
Number of shares at period end	29,741,197	29,741,197	29,741,197	29,741,197
Fully diluted number of shares at period end	30,605,809	30,588,034	30,605,809	30,588,034
Average number of shares	29,741,197	29,741,197	29,741,197	29,741,197
Average number of fully diluted shares	30,580,030	30,505,615	30,582,383	30,481,403