

## **Kindred as an investment**

*Kindred is a leading and global online gambling operator in a large and growing market with a purpose to transform gambling by being a trusted source of entertainment that contributes positively to society. We are committed to continuing our growth journey in Australia, Europe and the US, the latter being an opportunity which will be prioritised in the coming years. Over time, an increasing share of Kindred's revenue and profit will come from locally regulated markets. Our size, solid track record of growth and structured approach to sustainability have provided us with economies of scale and the ability to deliver sustainable profitable growth and strong cash flows.*

### **A large and growing underlying market**

Kindred operates in the global online gambling market which includes live and pre-game sports betting, casino & games, poker and bingo. Sports betting and casino & games are the two largest product segments and estimated to make up 49<sup>1</sup> and 28<sup>1</sup> per cent respectively of the total global online market. Total Gross winnings revenue for the global online gambling market was estimated to be over GBP 53 billion<sup>1</sup> in 2020, with an expected compounded annual growth rate (CAGR) of 9<sup>1</sup> per cent between 2020 and 2025. The rapid growth rate can be largely attributed to the shift from offline to online gambling, a trend that has accelerated in the wake of the COVID-19 pandemic. The online gambling market was estimated at 20<sup>1</sup> per cent of the total global market in 2020. The market is also characterised by fragmentation, consolidation and the trend of more countries moving towards local regulation to protect tax income and address harmful gambling habits. In 2020, some 69<sup>1</sup> per cent of the total global market value is estimated to have originated from regulated markets.

### **One of the world's leading online gambling operators with a diversified business model**

Kindred is the world's fourth largest online gambling operator in terms of Gross winnings revenue and has nearly 30 million registered customers across many countries. Our revenue is diversified, both from a product and a geographical perspective, which provides a stable base and multiple growth opportunities. By utilising Kindred's strong brands and attractive products across our markets, we continue to grow our customer database and gain market share. Through our data-driven approach and strong focus on customer experience our objective is to retain our customers over a long period of time and build sustainable relationships. Kindred's strong market position also makes it possible for Kindred to take an active role in consolidation of the large, and still fragmented, online gambling industry.

### **A solid foundation for continued long-term profitable growth**

Kindred has a track record of strong revenue growth with a CAGR of 23 per cent between 2010 and 2020, which can be compared with 11<sup>1</sup> per cent for the global online market. The global online market is relatively resilient to macroeconomic development, which can be illustrated by an estimated 11<sup>1</sup> per cent growth in 2020 despite the pandemic's negative effect on the world economy. The accelerated shift to online gambling, regulatory developments and M&A activities create opportunities for Kindred to grow and continue to gain market share. Kindred's large customer base, strong market position and technical platform capacity are the solid foundations required for seizing these opportunities. The transformation to locally regulated markets continues, and we are confident that these markets will allow for solid and sound long-term growth. Kindred has delivered on its strategic aim of sustainable growth as our share of Gross winnings revenue from locally regulated markets has increased from around 31 per cent in 2015 to 60 per cent in 2020 and we expect this to increase going forward. In addition, we have completed, on average, one M&A

transaction per year to support our organic growth, and we expect this activity to continue in the future.

### **Well positioned to grow the US to one of our largest markets**

Although Europe is our home market, and still offers significant growth opportunities for Kindred, we have a clear objective to also increase revenues in other markets. In 2020, almost USD 3 billion<sup>2</sup> of the global online market is estimated to have originated from the USA, while this only amounts to around 4 per cent of the global online market it also represents nearly triple the amount of USD 1 billion<sup>2</sup> for 2019. As most states are expected to open up for online gambling in the coming years, the market is expected to grow rapidly with estimates that the value of the US online gambling market could be almost USD 11 billion<sup>3</sup> by 2025. The market clearly has the potential to be the world's largest online gambling market and Kindred has the products, processes and resources required to capitalise on this significant growth opportunity. Kindred entered the US market in 2019 and has already established a foothold in the market in 2020, reaching GBP 23.8 million in Gross winnings revenue. This is a modest 2 per cent of Kindred's total revenues but a substantial increase from the GBP 1.7 million in 2019. Our strategy in the USA is focused on organic expansion, entering states where we can achieve a meaningful market share and where entry costs are reasonable. Our immediate focus is on expansion in the Northeast and Midwest regions, while we continue to explore selective opportunities across the USA. As of February 2021, we have conditional access to up to 12 states, covering one third of the US population. Our ambition is to be live in six states by the end of 2021 and to grow the USA into one of Kindred's largest markets in the next couple of years.

### **Determined focus on sustainability**

A sustainable business is a core element in Kindred's corporate purpose and embedded in our business model. Our ambition is to ensure that our operations always meet the highest professional, compliance and ethical standards. Kindred's focus on sustainability contributes to long-term profits, reduces volatility and uncertainty, and strengthens our ability to attract and retain the best talent. It also allows close cooperation with regulators and other key institutions. Our efforts have been awarded because in 2016 Kindred Group became the first online operator to receive the environmental, social and governance rating "AAA" from MSCI and, since 2019, our environmental, social and governance commitments have been audited every year by eCOGRA confirming our compliance with EU recommendations. In 2018, we informed the market about our sector-leading approach to responsible gambling with the ambition of having zero per cent of our revenues from harmful gambling by the end of 2023. At the beginning of 2021, we also became the first company in the industry to publicly announce our current share, something we will continue to do on a quarterly basis, along with the efforts being undertaken to achieve this ambition.

### **A profitable business model with strong underlying cash flow generation**

Kindred has a track record of delivering profitability and strong cash flows. The strategic focus on core markets and increased cost control, resulted in a solid financial result in 2020 with an EBITDA-margin of 24 per cent. Our leading position and size mean we can scale operations and invest in the marketing and technology that is required to support further profitable growth, especially in locally regulated markets where taxes and operating costs are higher. A large part of Kindred's cost base is also variable, which allows us to make short-term cost adjustments when changes occur in the business environment, something we saw in the wake of the pandemic in 2020. Kindred has a track record of generating stable long-term profit margins and absorbing short-term regulatory headwinds and increased betting duties as the share of locally regulated revenues has continued to grow. During the last two years, Kindred has generated GBP 316.0 million of free cash flow. The strong balance

sheet and cash flow generation allow for continued investments in organic growth in Australia, Europe and the US, and provide the financial strength required to pursue selective acquisitions. As a result of the strong cash flows, Kindred's dividend policy is to generate stable ordinary dividends in absolute GBP-denominated terms that are complemented with share purchases. The total pay-out ratio of dividends and share purchases should over time equal approximately 75 per cent of free cash flow.

**Sources:**

1 H2GC 1 Jan 2020 2 Eilers&Krejci, 3 VIXIO Gambling Compliance