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### **Alta Fox Capital’s Analysis of Enlabs (“NLAB”)**

#### **Executive Summary**

Enlabs (“NLAB” SS) is an attractive direct to consumer gambling asset (~\$135M EUR market cap) with strong competitive advantages, significant insider ownership, fast growing end-markets, and a trailing 3-year organic EBITDA CAGR of 28%. It has appreciated nearly 500% over the last five years through strong market growth (increasing % of gambling spend spent online), market share gains, and expansion into new countries. With conservative assumptions, the business today trades for <9x our FY22 EPS estimate and <6x our FY22 EPS estimate + net cash/share. **We believe shares are worth 100% higher than where it currently trades. Moreover, the company has several call options that could lead to significantly greater upside. This level of upside combined with a net cash balance sheet and a savvy, incentivized leadership team makes Enlabs one of our favorite risk/rewards in the market today.**

#### **Business Overview**

Enlabs is an online B2C gambling operator that operates the Optibet brand in the Baltic countries in Europe (Latvia, Estonia, Lithuania). ~94% of revenues come from regulated markets. Gaming accounted for 92% of revenues in FY19, while media (affiliate business) was 5% and solutions (licensing their technical platform) accounted for 3%. Non-gaming revenue line items continue to shrink as a percentage of total revenue and are not core to the Enlabs thesis.

Within the Optibet platform, gaming revenue is distributed among the segments below:

<b>Enlabs Gaming Revenue by Product</b>				
	<b>FY2016</b>	<b>FY2017</b>	<b>FY2018</b>	<b>FY2019</b>
<b>Casino</b>	<b>5.2</b>	<b>9.7</b>	<b>14.6</b>	<b>22.4</b>
y/y %		87%	51%	53%
% of total	41%	48%	55%	62%
<b>Sports Betting</b>	<b>7.4</b>	<b>8.9</b>	<b>10.6</b>	<b>12.0</b>
y/y %		20%	19%	13%
% of total	58%	44%	40%	33%
<b>Poker</b>	<b>0.1</b>	<b>1.5</b>	<b>1.3</b>	<b>2.0</b>
y/y %		nm	nm	nm
% of total	1%	7%	5%	5%
<b>Bingo</b>	<b>0.0</b>	<b>0.2</b>	<b>0.2</b>	<b>0.0</b>
y/y %		nm	nm	nm
% of total	0%	1%	1%	0%
<b>Total</b>	<b>12.7</b>	<b>20.3</b>	<b>26.7</b>	<b>36.4</b>
y/y %		60%	32%	36%

*\*Note that sports betting revenue has materially declined in 2020 following the absence of sporting events caused by Covid19 lockdown measures. We expect the return of sporting events and sporting revenues to result in a near-term catalyst for shares.*

While Enlabs does not report gaming revenue by geography, based on our calls with industry experts and online traffic analysis, we estimate that Latvia is ~75% of Enlabs' gaming revenue, Estonia is ~22% and Lithuania is ~3% (Enlabs launched Optibet in Q4 2018 in Lithuania).

Optibet launched in Latvia in 2003 and was the only licensed online operator in Latvia for the majority of the 2000's. This allowed Optibet to establish a dominant brand among Latvian consumers and a close relationship with the Latvian government. Optibet was acquired by the parent company that is now Enlabs in 2007. Optibet launched in Estonia in 2014 and Lithuania in Q4 2018 but was not a first mover in either market (Estonia regulated online gambling in 2010 and Lithuania legalized online gambling in 2016). Despite the later market entry, Optibet has managed to gain meaningful online market share in Estonia (~20%) and ~5% share in Lithuania. Former management had been distracted pursuing B2B initiatives, and it was not until 2020 under their new CEO that Enlabs made a clear commitment to focus entirely on their B2C efforts – a significant positive, as Optibet has always been the crown jewel of Enlabs.

### Market and Industry Overview

- 1) B2C online gambling operators incentivize consumers to place bets on their platform (whether on casino, sporting events, or poker/bingo games). B2C gambling operators win a slight majority of these bets. The average % of value bet that customers win is known as the return to player ("RTP"). Online casino RTP economics are typically ~95%, while sports betting RTP economics are typically 90-95% with much higher volatility. In other words, Enlabs' gaming revenue is ~4.5% of all bets placed on Optibet.

<b>GAMING</b>	<b>2020 Q1</b>	<b>2019 Q4</b>	<b>2019 Q3</b>	<b>2019 Q2</b>	<b>2019 Q1</b>
Revenue (KEUR)	9,871	10,383	9,155	8,597	8,263
Growth over previous quarter (%)	-5	13	6	4	3
Growth over previous year (%)	19	29	39	44	36
Mobile revenue (%)	68	67	69	65	56
Sustainable revenue (%)	94	94	94	94	95
Total active customers	43,003	41,518	37,536	37,753	35,219
Active customers, growth per quarter (%)	4	11	-1	7	-5
Active customers, growth per year (%)	22	12	5	10	1
Deposits (KEUR)	33,288	33,684	29,856	27,887	26,536
Deposits, growth per quarter (%)	-1	13	7	5	11
Deposits, growth per year (%)	25	41	43	58	63
<b>Gaming margin (%)</b>	<b>4.4</b>	<b>4.7</b>	<b>4.7</b>	<b>4.6</b>	<b>4.6</b>
Casino margin (%)	3.6	3.9	3.9	3.8	3.7
Online betting margin (%)	9.3	8.2	8.8	8.6	8.5
Retail betting margin (%)	10.2	10.0	9.4	8.2	9.5



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- 2) B2C gambling operators typically differentiate themselves in their marketing, the "look and feel" of the gaming platform, and the types of games/betting lines offered. How well operators can manage marketing costs (customer acquisition costs and promotions) in relation to bets placed on their platforms is key to their success.

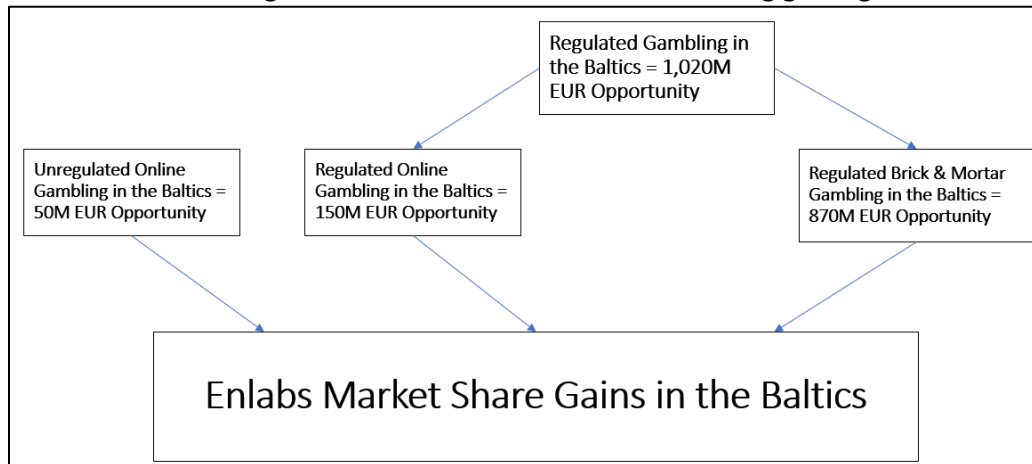
- 3) The Baltic states have some of the most restrictive laws when it comes to advertising for gambling and player protection. For example, in Latvia it is illegal to advertise gambling outside of a gambling venue (designated sports bars/betting shops), legislation requires players to set their own stake limits which are not easily changed, it is forbidden to play for free money (restricting bonus options) and player self-exclusion is easily accessible. Taxes are high at 10% relative to its low population of <2M, limiting scalability potential for new competitors. **High regulatory barriers in the Baltics are key to Enlabs' structural competitive advantage.** Furthermore, Enlabs holds *key sponsorships* with the Latvian Football (soccer) & Hockey leagues and for the national Men's & Women's Football (soccer) teams in Latvia AND Lithuania among other sponsorships such as the largest running event in Estonia, the Tallinn Marathon. Given Enlabs already has a captive customer base in Latvia (>50% market share) and Estonia (20% market share) they no longer need to spend as much on marketing to maintain these players given competition is far more limited than in both other regulated and unregulated countries.
  - a. Given the small size of the Baltic markets coupled with their restrictive advertising policies, larger operators have ignored them almost entirely. We expect this to remain the case going forward.
- 4) **Considering their 1<sup>st</sup> mover advantage in Latvia, existing market share, and some of the most restrictive advertising laws in the world, Enlabs has obtained an unassailable position in the key Baltic state.** From their highly profitable base in Latvia, Optibet has successfully expanded into Estonia, is currently in expansion mode in Lithuania, and plans to expand into other newly regulated Eastern European countries in the near future. **In short, Enlabs is the most sophisticated and best competitively positioned operator in the Baltic states which still have low levels of online gambling penetration and long runways for growth.**

The licensed online gambling markets in the Baltics are growing 20%+ in aggregate as iGaming continues to take share from brick & mortar gaming as well as from unregulated (illegal) online operators.

Enlabs has meaningfully benefited from the following trends in the Baltics over the last few years:

- 1) Increased market regulation opening up new addressable geographies.
- 2) Improved Baltic economies, affording consumers more discretionary income to spend on gaming.
- 3) Baltic consumers preferring to wager on online gambling **resulting in market growth of >20% in aggregate.**
  - Enlabs revenue / avg customer has increased 42% from FY17 to FY19.
- 4) Enlabs winning market share from competition.
  - Enlabs Estonia market share increased from ~13% in 2018 to 20% in 2019.
  - Enlabs Lithuania market share increased from 0% in 2018 to 3% in 2019 (management estimates their market share today to be ~5%).
- 5) iGaming continuing to take share from brick & mortar gaming.
- 6) Governments more actively blacklisting illegal operators, shifting more iGaming revenue to licensed holders.

### Enlabs is winning market share from each of the following gaming channels



Source: NLAB annual reports, NLAB management commentary, Latvia government statistics, industry experts

### Baltic States Key Gaming Stats

FY19 Stats	Total Gambling est. Market Size (EUR)*	Total Gambling est. Market Growth	Total est. Licensed Online Gambling Growth	Year of Market Regulation	Year of Optibet Launched
Latvia	350M	11%	33%	2003	2003
Estonia	170M	5%	15%	2010	2014
Lithuania	500M	8%	48%	2016	2018

Source: NLAB annual reports, NLAB management commentary, Latvia government statistics, industry experts

\*Estimated regulated online + brick & mortar market size

### Baltic States Key Online Gaming Stats (estimates)

FY19 Stats	Regulated online market share vs brick & mortar	Optibet's market share vs regulated online competitors	% of online gambling rev going to unlicensed operators
Latvia	17%	50%	40%
Estonia	15%	20%	30%
Lithuania	10%	3%	35%

Source: Enlabs annual reports, Enlabs management commentary, Latvia government statistics, industry experts

Over the next few years, we believe Enlabs will benefit strongly from the following trends:

- 1) iGaming continuing to take share from brick & mortar gaming.
- 2) Enlabs continuing to win market share in their core Baltic markets.
- 3) Licensed iGaming continuing to take share from unlicensed operators.
- 4) Increased market regulation (i.e. Belarus in 2019, Ukraine in 2020) opening up new addressable geographies that Enlabs will actively try to win market share in.

**Bottom line: Enlabs is still in very early innings of growth.** This is due to a meaningful % of online gaming still going through illegal channels, low penetration in online gaming relative to brick & mortar gaming, and further market share gains from regulated online competitors.

### Summary: Why Enlabs is a high-quality business

- **High Barriers to Entry**

- Governmental regulation in Latvia has cemented Enlabs as the dominant gaming operator with little meaningful competition.
- **Scalable Business model**
  - The Optibet platform can be easily transported into neighboring countries at low cost. Enlabs has already proven they can be successful bringing Optibet into neighboring geographies.
- **Strong and Incentivized Management**
  - High insider ownership (33%) and an “owner-operator” mentality explain Enlabs’ disciplined approach to how the business pursues growth opportunities.
    - Ex 1: Enlabs was granted a gaming license in Sweden (~6.5x times the size of Latvia) but has not used it to date given the high degree of competition in the market.
    - Ex 2: Management has demonstrated the ability to generate ~30%+ gaming revenue growth while keeping EBITDA margins stable at ~30%.
      - It is rare for a management team to show this level of discipline in a fast-growing European small-cap gambling asset. We believe Enlabs should trade at a premium multiple as a result.
  - The Chairman (Niklas Braathen), who leads the company behind the scenes and owns ~22% of shares outstanding, is held in high regard in the industry. Quotes about Niklas from industry experts we have spoken with are as follows:
    - “Niklas, the Chairman of Enlabs, is well respected in the industry. You work for him and you will get good jobs going forward.” – CFO of a Nordic gaming company.
    - “Niklas is a remarkable person. I’ve held my position in Enlabs purely based on my belief in the Chairman.” – ex-CEO of European gaming company
- **Enlabs’ business quality is evident in its high ROEs, profitability metrics, and ~480% TSR over the last 5 years.**
  - ROE (Net Income / Avg Equity)
    - FY17: 18%
    - FY18: 25%
    - FY19: 27%
  - ROE [Net Income / (avg Equity – avg Cash)]
    - FY17: 26%
    - FY18: 39%
    - FY19: 49%
  - Gaming revenue growth
    - FY17: 25%
    - FY18: 32%
    - FY19: 36%
  - EBITDA margins
    - FY17: 29%
    - FY18: 30%
    - FY19: 29%
- **Note that the majority of Enlab’s 5-year TSR of ~500% came in 2017 for the following reasons:**

- EBITDA margins expanded from 8% to 29% from 2016 to 2017 as Enlabs demonstrated the operating leverage potential inherent in the business model.
- Enlabs began to engage more directly with investors and began releasing cleaner financial statements (pre-2017 financials are not available on their website).

### Core Investment Thesis

#### **1) Enlabs is a high-quality business with a strong management team**

- a. Structural barriers to entry in less competitive, niche markets has resulted in rapid and profitable growth.
- b. Scalable business model.
- c. Strong capital discipline focusing on the highest ROI opportunities.

#### **2) Enlabs is still in the early innings of growth with multiple positive drivers working in their favor**

- a. The Baltic igaming market continues to grow at ~15-20% per year.
- b. Enlabs continues to win incremental share in these markets from brick and mortar betting shops, illegal igaming websites, and other licensed online competitors, **allowing Enlabs to outpace market growth.**
- c. Assuming Enlabs does *not* enter any new markets (which would drive topline well above our estimates of 15-20% growth), **EBITDA margins should gradually expand** as Optibet becomes more mature in both Estonia and Lithuania.
  - i. **We estimate that EBITDA margins in Latvia today are ~40%.** We believe the overall business could eventually achieve EBITDA margins at this level if management decides to stay in the Baltics.
- d. We *conservatively* think that EPS can CAGR organically at a high-teens rate over the next 5 years.

#### **3) Enlabs is extremely cheap considering the business quality and growth profile**

- a. At a *conservative* 15x EPS (3-year LTM average is 20x) on our FY 2022 EPS of 2.52 SEK, the business is worth 37.83 SEK/share by 2022. Adding in significant cash build of ~8.00 SEK/share results in our **FY 2022 target price of 45.83 SEK resulting in over 100% upside from current prices and a 46% IRR.**
- b. Moreover, there are multiple call options, each with a reasonable likelihood of success that could lead to *many multiples of upside* from our conservative estimates.

Enlabs	FY2016	FY2017	FY2018	FY2019	FY2020	FY2021	FY2022	FY2023	FY2024
Gaming Revenue	16,253	20,263	26,696	36,398					
Media Revenue	1,005	2,745	2,641	2,124					
Solutions	5,665	459	1,274	1,090					
Net Revenues	22,923	23,467	30,611	39,612	38,458	48,073	57,687	66,340	76,291
q/q %									
Gaming revenue y/y %		24.7%	31.7%	36.3%					
3-year Gaming Rev CAGR			31%						
y/y %		2.4%	30.4%	29.4%	-2.9%	25.0%	20.0%	15.0%	15.0%
COGS	6,720	6,534	5,279	7,049	11,082	13,131	15,757	18,121	20,839
Gaming Taxes			2,743	3,802					
Gross Profit	16,203	16,933	22,589	28,761	27,376	34,942	41,930	48,220	55,452
y/y %		5%	33%	27%	-5%	28%	20%	15%	15%
Gross margin	70.7%	72.2%	73.8%	72.6%	71.2%	72.7%	72.7%	72.7%	72.7%
y/y BPs	7,068	147	164	(119)	(142)	150	0	0	0
Operating Expenses	10,707	10,194	13,323	17,180	18,131	20,385	23,021	26,106	29,723
Staff costs	5,560	5,710	7,837	8,395	8,572	9,429	10,372	11,409	12,550
% of rev	24.3%	24.3%	25.6%	21.2%	22.3%	19.6%	18.0%	17.2%	16.5%
y/y %		2.7%	37.3%	7.1%	2.1%	10.0%	10.0%	10.0%	10.0%
Capitalized development costs - EnLabs is adding back	(92)	(1,383)	(2,375)	(2,301)	(2,193)	(2,303)	(2,418)	(2,539)	(2,666)
% of rev	-0.4%	-5.9%	-7.8%	-5.8%	-5.7%	-4.8%	-4.2%	-3.8%	-3.5%
y/y %		1403.3%	71.7%	-3.1%	-4.7%	5.0%	5.0%	5.0%	5.0%
Marketing costs	1,312	2,689	4,323	6,743	7,532	9,039	10,847	13,016	15,619
% of rev	5.7%	11.5%	14.1%	17.0%	19.6%	18.8%	18.8%	19.6%	20.5%
y/y %		105.0%	60.8%	56.0%	11.7%	20.0%	20.0%	20.0%	20.0%
Other income and expenses	3,927	3,178	3,538	4,343	4,220	4,220	4,220	4,220	4,220
y/y %		-19%	11%	23%	-3%	0%	0%	0%	0%
EBITDA	5,496	6,739	9,266	11,581	9,245	14,557	18,909	22,113	25,729
y/y %		23%	37%	25%	-20%	57%	30%	17%	16%
% of rev	24%	29%	30%	29%	24%	30%	33%	33%	34%

Enlabs	FY2016	FY2017	FY2018	FY2019	FY2020	FY2021	FY2022	FY2023	FY2024
<b>Valuation</b>									
EPS (EUR)	\$0.07	\$0.08	\$0.11	\$0.15	\$0.10	\$0.18	\$0.24	\$0.29	\$0.33
y/y %		13%	44%	32%	-31%	77%	33%	17%	16%
Exchange Rate EUR/Swedish Krona		0.097	0.097	0.097	0.097	0.097	0.097	0.097	0.097
EPS (Swedish Krona)		0.82	1.18	1.55	1.07	1.90	2.52	2.95	3.42
y/y %					-31%	77%	33%	17%	16%
PE					15.0x	15.0x	15.0x	15.0x	15.0x
Target Price (no dividends or cash) Swedish Krona					\$16.09	\$28.46	\$37.83	\$44.25	\$51.31
(+) Net Cash/Share Swedish Krona			\$2.00	\$3.19	\$3.71	\$5.56	\$7.99	\$10.82	\$14.04
Target Value/Share Swedish Krona			\$2.00	\$3.19	\$19.79	\$34.03	\$45.83	\$55.07	\$65.35
FDSO			61.4	62.7	65.2	66.5	67.8	69.2	70.5
Target Market Cap (EUR)			-	-	125	219	301	369	447
(+) debt			-	-	-	-	-	-	-
(-) cash			12	19	23	36	53	73	96
Target EV			(12)	(19)	102	184	249	297	351
Implied IRR using PE						59%	46%	37%	32%
Share Price		(22.0)	(22.0)	(22.0)	-\$22.00	-\$22.00	-\$22.00	-\$22.00	-\$22.00
Future Value (target price + cash)					\$19.79	\$34.03	\$45.83	\$55.07	\$65.35
Today					7/20/2020	7/20/2020	7/20/2020	7/20/2020	7/20/2020
Date Future Value Realized					6/30/2020	6/30/2021	6/30/2022	6/30/2023	6/29/2024
Total Shareholder Return (ex-dividends)						55%	108%	150%	197%
<b>Implied Multiples from EV/EBITDA</b>									
Implied EV/Sales						3.8x	4.3x	4.5x	4.6x
Implied EV/EBITDA						12.6x	13.2x	13.4x	13.6x
Implied FCFE Multiple						17.6x	18.0x	18.5x	19.0x
Current EV (EUR)		139.1	139.1	139.1	139.1	139.1	139.1	139.1	139.1
Current Market Cap (EUR)		162.5	162.5	162.5	162.5	162.5	162.5	162.5	162.5
<b>Implied Multiples from Current Price</b>									
EV / EBITDA		26.0x	20.2x	15.0x	57.2x	66.7x	26.2x	19.1x	14.6x
EV / Sales		5.9x	4.5x	3.5x	3.6x	2.9x	2.4x	2.1x	1.8x
PE ex-cash		27.0x	18.7x	14.2x	20.5x	11.6x	8.7x	7.5x	6.4x
PE incl cash					17.1x	8.7x	5.6x	3.8x	2.3x

### Multiple shots on goal, if executed successfully, could result in Enlabs being *another* 5-bagger over the next 5 years

None of our estimates above incorporate any of the following shots on goal, but we attempt to quantify their potential impacts on Enlabs below in order of magnitude:

#### **Shot #1: Global Gaming Acquisition (GLOBAL SS) – strategic and accretive upside, catapulting Enlab’s FY22 intrinsic value to 62 SEK/share (from 45 SEK/share ex-acquisition).**

- Enlabs acquired 29.9% of Global Gaming (~30M EUR market cap) on June 8<sup>th</sup> for 8 SEK / share with the likely intention of buying the entire business within the year.
- From peak to trough (2018-2019) Global Gaming saw its market cap decline from ~160M EUR to ~14M EUR. While Global Gaming enjoyed tremendous success, they were targeted by Swedish regulators in 2019 who revoked their license to operate in Sweden (their only meaningful market). **Enlabs swooped in to buy Global Gaming at a material discount to pro forma earnings power for the combined entity.**
  - Management was able to purchase much of their stake directly from large Global Gaming shareholders, avoiding significant open market purchases that could have meaningfully raised the stock price.



- Management's tact surrounding their acquisition of shares and overall decision to acquire Global Gaming is another testament to their savviness.
- Global Gaming background:
  - Global Gaming is known primarily for their ownership of the Ninja Casino brand. **Ninja Casino became the most popular icasino brand in Sweden in 2017-2018.** After the country regulated online gambling in 2019, regulators wanted to make a statement as a show of power and were looking for a target. Given Ninja Casino's popularity, regulators settled on them and permanently revoked Global Gaming's license to operate Ninja Casino in Sweden in June 2019 for the following reasons:
    - Their deposit limit was not in place for 14 days as they required.
    - They were offering bonuses to all players instead of just to new players.
    - Their AML standards were lax and not in compliance with guidelines.
  - No other iGaming licenses have been revoked in Sweden since the market regulated in 2019.
  - Today Global Gaming derives 75% of revenue from Finland (unregulated) and 20% of revenue from Estonia (regulated) and is ~ breakeven on an EBITDA basis.
- We believe this acquisition can add 12M in EBITDA to Enlabs by FY22 (2M from Global Gaming's core operations, and 10M in both cost and revenue synergies). Some synergies are described below:
  - Launching Ninja Casino in Optibet's key markets of Latvia and Lithuania.
  - Moving Ninja Casino's platform (currently outsourced) to Enlabs' internal platform.
  - Cutting unnecessary overhead given the business model's scalability.
  - **Re-launching Ninja casino in Sweden through Enlabs.**
- **We eventually expect Enlabs to buy the entirety of Global Gaming for a low single digit pro forma EBITDA multiple post-synergies.**
- Why did Enlabs only buy 29.9% of Global Gaming and not buy the entire business outright?
  - Global Gaming was trading very cheaply and Enlabs did not want to be dragged into a potential bidding war. Given they own 29.9% of the business it is unlikely that a competitor will now try to make a higher offer.
  - Enlabs wanted to have ample time to do due diligence into the business to make sure they were not missing anything from a legal/compliance/regulatory perspective that could be an issue down the line.
- **Factoring in these synergies and the associated dilution increases our Enlabs fair value estimate to 62 SEK/share by FY22 (inclusive of net cash), assuming a 15x EPS multiple. This implies almost 200% upside from current prices and a 70% IRR.**

## Shot #2: Launching Optibet in new markets

Enlabs Market Potential (2019 Stats)							
Current Markets	Market Size (EUR M)	Population (M)	Regulated?	New Markets	Market Size (EUR M)	Population (M)	Regulated?
Latvia	350	1.9	Yes	Finland	2,000	5.5	No
Estonia	170	1.3	Yes	Sweden	2,272	10.0	Yes
Lithuania	500	2.7	Yes	Belarus	500	9.5	Yes
				Ukraine	?	44.0	Soon
				Peru	?	32.9	No
				Chile	?	19.1	No
<b>Total</b>	<b>1,020</b>	<b>5.9</b>		<b>Total Known</b>	<b>4,772</b>	<b>121.0</b>	

- **The combined population of Enlabs' new geographic opportunities is over 20x the population of the Baltics.** The combined gaming market sizes of each new geography is likely 7-10x greater than the Baltic states. Within 5 years it is reasonable to assume that Enlabs could be a key player in some of the countries listed above – any of which would more than double Enlabs' current market size by population.

### Shot #3: Launch of new brand, Laimz, in core Baltic markets

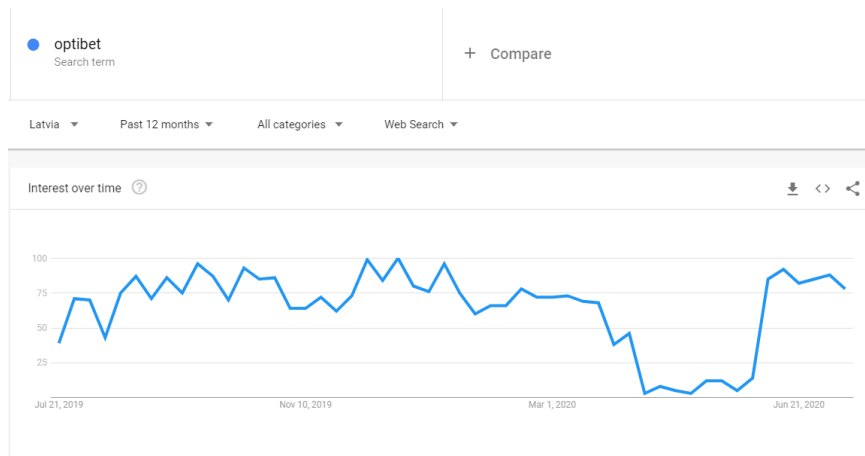
- In June 2020 Enlabs launched Laimz in Latvia, their second gaming brand which they developed in-house over the last few years. The intention of this brand is to target a female demographic, as Optibet has a low proportion of female users (~80/20 male to female users). **We expect this brand to add incremental market share to Enlabs within their core markets in addition to market share gains we expect them to achieve with Optibet.**

**Giving credit to Enlabs' shots on goal while assuming *no* multiple expansion, we think there is a realistic scenario in which Enlabs will be another 5-bagger over the next 5 years.**

- FY25 shots on goal earnings estimates:
  - Core Optibet business in the Baltics compounds to generate ~4.00 SEK in EPS.
  - Global Gaming adds ~2.75 SEK in EPS as Ninja Casino is launched in new geographies and meaningful cost synergies are realized.
  - Launching Optibet in new geographies adds ~1.75 SEK in EPS assuming Optibet achieves low single digit market share in new markets with a modest EBITDA contribution margin.
  - Launching Laimz in their core markets adds ~.50 SEK in EPS assuming low single digit market share in each Baltic market.
- **In total these estimates yield ~9 SEK in EPS which at 15x implies a target price of 135 SEK or >500% upside from current prices.**

### Why does this opportunity exist?

- Enlabs is off the radar of most investors given it trades on an obscure exchange with mediocre share price performance over the last 2 years and revenue derived from obscure markets.
- Sports betting (33% of FY19 revenue) has been largely written off since March 2020.
  - This has resulted in investor disinterest in Enlabs given their meaningful exposure to sports betting.
- Latvia, Enlabs biggest market by revenue, suspended all igaming operator licenses as part of their Covid19 lockdown measures.
  - Enlabs had essentially 0 revenue in Latvia from early April to early June (see the google trends chart below for more color):



- Enlabs took decisive action in setting up meetings with every relevant politician, trying to appeal the ruling and more importantly to educate the politicians on the fallacy of their decision.
  - This was a very poor decision by Latvian regulators
    - Consumers will play on unregulated operators if regulated operators are no longer an option – unregulated operators are still estimated to account for **40%** of total online gambling revenue in Latvia.
    - Revenues to unregulated operators typically translates into zero tax revenue for the state governments and a lack of responsible betting practices.
  - We believe Enlabs' regulatory environment is actually now stronger than it was pre-Covid 19 as the company has met with numerous legislators and been able to better communicate the benefit of cracking down on unlicensed operators while keeping a healthy regulated market.
- No meaningful analyst coverage.

### Catalysts:

- **Uplisting**
  - Within the next 1-2 years we expect NLAB to uplist to the Nasdaq Stockholm exchange. Their current exchange (First North Stockholm) does not allow them to buy back shares and has a similar reputation to the OTC exchange in the US.
- **Acquisition of Global Gaming**
  - We think the Global Gaming acquisition could be a home run for the Enlabs and that potential cost synergies alone are enough to warrant an immediate re-rating of shares.
- **The return of professional sports and professional sports betting**
  - The most meaningful sports as a % of revenue for Optibet are European Soccer, the NBA and NHL/KHL (both hockey leagues).
- **Acquisition of Enlabs by a larger B2C operator**
  - We think Enlabs would be a perfect acquisition candidate for a larger B2C gaming operator looking to establish a presence in the Baltics. We think an operator could easily afford to pay a large premium to Enlabs' shares today given the quality of the business, its relatively small

size, and cost synergies.

- **Other**

- Addition to BETZ ETF.
- Covid19 creating easy comps in 2021.
- Approval of licenses in new geographies and success in new markets.
- Success with the launch of their Laimz brand.

## **Risks**

- **Regulation**

- Tax increases
    - We estimate Enlabs derives 70% of revenues from Latvia. If Latvia were to raise their gaming tax, this would likely lower Optibet's gross profit margin by a comparable amount and have a comparably larger effect than if Estonia or Lithuania raised gaming taxes.
      - Mitigant:
        - The higher taxes are, the harder it is for regulated operators to compete. Optibet is the biggest competitor in Latvia and has said that a meaningful increase in gaming taxes would eliminate all regulated competitors expect for them.
        - It is in the government's best interest to mitigate unregulated online gambling. Raising tax rates on regulated operators will force some to exit the market and limit availability of operators, causing customers to seek out unregulated operators.
    - Note that over time we do expect taxes to go up incrementally.
  - License suspensions
    - Regulators have control over who has and does not have licenses. While highly unlikely, there is always the remote possibility that an operator gets their license revoked.
      - Mitigant:
        - Enlabs is held in very high regard in the Baltics region and *specializes* in regulated markets (~94% of revenues came from regulated markets in FY19). Furthermore, suspensions of licensed operators with meaningful market share will drive more traffic towards unlicensed operators which is not what regulators want to happen. This is especially true in the Baltics where there is significantly less competition than in countries like Sweden.
- Meaningful economic slowdown in the Baltics in the wake of Covid19
    - Mitigant:
      - Covid19 has accelerated the structural shift into online gaming. Given the Baltic states still have relatively low levels of online gaming penetration, we think an economic slowdown in the Baltics could be offset by an accelerated channel shift into igaming.
  - Execution risk in entering new markets causing headwinds to profitability
    - Mitigant:

- Enlabs has demonstrated that they can successfully penetrate new markets while maintaining 30% EBITDA margins given their success in Estonia and Lithuania.
- High management turnover resulting in operational risk
  - Mitigant:
    - Niklas (the Chairman) owns 22% of the company and is the key driving force behind Enlabs' success. He has demonstrated a tendency to hire CEOs who have been experts in one or two particular areas (i.e. corporate rebranding, restructuring, operations). However, the new CEO has quickly risen through the ranks of Enlabs (promoted from financial manager, to CFO, to COO, and now CEO within 3 years), multiple industry participants speak highly of him, and we think he will be here to stay as he leads Enlabs into their next round of successful new initiatives in their *core B2C gaming* business.
    - Note that the CFO recently tendered his resignation for location reasons as Enlabs is closing their satellite Swedish offices (where he and a handful of other members were based out of) in order to consolidate personnel in Latvia.

### Summary

Enlabs is a high-quality, off the radar compounder trading at a steep discount to fair value. With conservative assumptions and no multiple expansion, we believe NLAB can generate a 100%+ return and 40%+ IRR by FY22. Furthermore, we believe there could be material upside to our earnings estimates if any of Enlabs' several "shots on goal" are successful (Global Gaming acquisition, expansion into new markets, launch of Laimz brand). **At <9x FY22 EPS and <6x 2022 EPS + Net cash/share, Enlabs is an extremely attractive risk/reward.**

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