

31-Jan-2021

## Notes Before reading:

Key Terms:

*Online Gambling:* Includes entire universe of gambling online, could be sports-betting, lottery, online casino, etc.

*Online Casino:* Slots, Table Games, Live Casino, RNG Games

*Live Casino:* Casino Games (blackjack, roulette, baccarat etc) where a human dealer is used

*Random number generator (RNG):* games that are essentially computer run

*Game Win:* Player Bets – Player Wins

*Gross Gaming Revenue:* Also called Game Yield. Industry-wide definition, generally the same as the gross game win. Calculated as player bets minus player wins, minus player compensations and bonuses.

Credit: This write-up has been co-written by our friend and frequent collaborator, Gerard Chua.

## Background:

Evolution Gaming (EVO) develops and operates Live Casino gaming solutions. They are best known for their live studios which are licensed to online gambling companies. The Lives Studios are operated by Evolution Gaming, who set up the space, train the staff, create the interface, and manage the games for any cheating/abuse. Most of these studios are set up in Eastern European companies such as Latvia, Georgia, and Romania but they also have studios in Canada, the United States, Spain, Malta, and Belgium. They also operate land-based Live Casinos. These are also studio facilities but based in casinos.



Evolution's VIP live blackjack tables



## History:

Evolution Gaming was founded In 2006 with its first studio in Riga, Latvia and shortly after signed on its first customers (casino operators) such as William Hill, Rank, and Gala Coral. Over the next decade the company kept expanding by launching new studios around the world, with shares listing in 2015 (currently trade on Swedish exchange). In 2018 it acquired Ezugi a competitor which had studios in New Jersey, Oklahoma, LATAM, and South Africa. In 2020 it acquired NetEnt, a leader in slot gaming. The company was founded by Jens Von Bahr (current chairman) and Fredrik Osterberg (board member). The company key shareholders include the co-founders, The Capital Group and Richard Livingstone (UK real-estate Billionaire).

## Why Live Casinos?

There are two layers to this question one is a broader question about the growth in online gambling, and as a subset of that – Live Casinos. We’ve written about the growth in online gambling before, so as quoted from a previous write-up about IAC:

“The current global gambling market is around \$443bn<sup>1</sup> with the online gambling market size of around \$60bn<sup>2</sup> which implies a penetration of around 13% (IAC states its less than 10% in the US). Now the overall gambling market is set to grow at 5.6% CAGR whereas the online market is expected to grow at 11.5% CAGR (between 2020-2027). This implies that not only is the global gambling market going to grow, but the online gambling portion of it will make up more than 20% of the total market by 2027. Just to put this in perspective, the current e-commerce penetration is around that globally, which again implies that online gambling in about 7 years’ time will look like how ecommerce looks now (ie most people you know who gamble, will be doing so online). “

Now, Live Casinos are a subset of the overall trend to move online. When gambling online, participants have a choice of gambling on RNG games, or, as with EVO products run by a live person. You can see a short clip of how Live Gambling works [here](#). As you can see everything except for the players, their cards, and the chips are physical. The dealer, the tables, and the background are all real and beamed (in real time obviously) from EVOs studios around the world. Now one might ask – why would someone do this, why not just go to the casino? And as people who have had many enjoyable experiences gambling in Las Vegas, we asked the same thing.

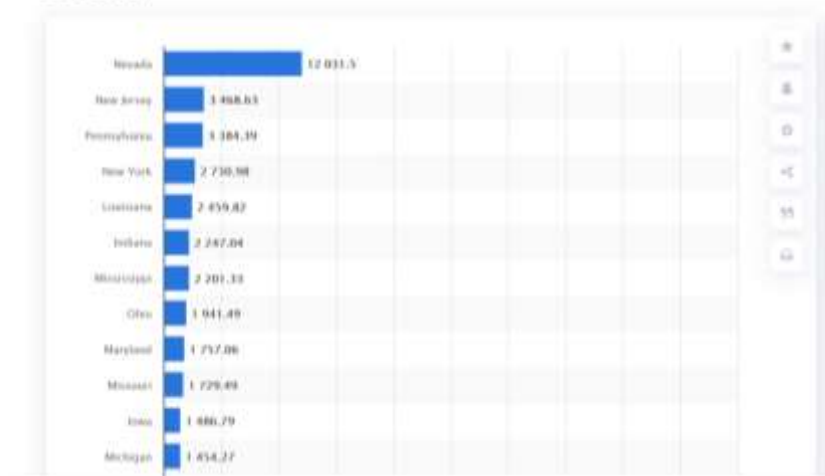
However, [this interview](#) with EVO’s Chief Product Officer, Todd Haushalter explains the appeal well. Now, the obvious answer here is Covid-related, people can’t go to casinos, but still want the feel of it, and so will gamble online. However we don’t expect the pandemic to be a long-term factor, so the

<sup>1</sup> <https://europeangaming.eu/portal/latest-news/2020/10/09/79231/global-gambling-market-analysis-forecasts-2012-2019-2020-2027-u-s-market-is-estimated-at-119-billion-while-china-is-forecast-to-grow-at-12-8-cagr/#:~:text=Global%20Gambling%20Market%20to%20Reach,the%20analysis%20period%202020%2D2027.>

<sup>2</sup> <https://www.prnewswire.com/news-releases/global-online-gambling-market-size-share--trends-analysis-report-2020-2027-william-hill-plc-and-paddy-power-betfair-plc-dominate-the-127-3-billion-industry-301139754.html#:~:text=The%20global%20online%20gambling%20market,traction%20over%20the%20forecast%20period.>

appeal of online and live gambling has to persist. Let's take the US case as an example. Now the reality is, according to Haushalter, a city like Las Vegas, in the long-run will be just fine, and will likely see its gambling revenues stay steady/grow. That's because the city has a lot of appeal, there are shows, conferences, great restaurants, and tons of activities for the whole family. Anyone who has been to Vegas will know exactly what we mean. But one has to remember, while Nevada (where Las Vegas is located), makes up a large portion of gambling revenues, \$12bn in 2019, \$41 billion actually comes from other states (see chart, in \$MM)<sup>3</sup>.

Gross gaming revenue of casinos in the United States in 2019, (dollars)\*



The casino going experiences in non-Las Vegas properties can be less than ideal. When we were in business school, we happened to visit the Horseshoe Hammond Casino (part of the Caesars Entertainment group) in Indiana for a tour. Let just say, while we could see the money flowing in, the atmosphere and experience as far from exciting. Alcohol beverages were not complimentary, the atmosphere very serious, no other draws to the casino (ie shows/Michelin star restaurants) and the nearby city has little to do. It's gambling properties like these that will see the most competition from online gambling, and especially products created/hosted by EVO. If we just take online gambling generally and compare the experiences to going to one of the 2<sup>nd</sup> tier casinos, you can see why it might be a superior experience. No travel necessary, no dealing with large sums of cash, don't have to worry about your chips when using the washroom, can supply your own drink/food, take break's when you want, can be on your phone when paying, faster gameplay (ie more hands per hour), no second-hand smoke, etc. You can see by gambling online, a lot of the 'frictions' to gambling are removed.

Now the next question to ask is given the above why is Live Casino a superior experience than online gambling. The answer is because Live Casino takes all the benefits of online gambling and combines it with the benefits of being in a casino. The dealers are real people, who converse/chat/joke with participants. Participants can chat to each other via chat, and if you play some of the games that EVO

<sup>3</sup> <https://www.statista.com/statistics/187926/gross-gaming-revenue-by-state-us/>

has created such as [Crazy Time](#) (which has won awards for its innovation<sup>4</sup>) the excitement of being in a casino can also be replicated. Further the problem with online casino RNG games is that players don't trust the random number generator, where as in Live Casino they can see a dealer shuffling, dealing, and interacting. This builds a layer of trust, like you would have in an actual casino.

### How it all works:

The first thing to make clear is that Evolution Gaming is not a casino operator. They are a service provider to casino operator (clients include 888, Bet365, GVC, DraftKings, etc), so they do not take any of the usual risks associated with gambling, i.e clients making big wins. They instead get a fixed fee to set up dedicated tables/spaces for Casino operators (80-85% of tables are dedicated), which are typically tens of thousands of dollars per customer<sup>5</sup>, as well as a commission on the amount gambled (we've heard this is usually 10%). So in that sense, EVO is the quintessential "picks and shovels" type of company, which doesn't operate the theoretical gold mine but sells the equipment that makes excavation possible.

What EVO does provide is the infrastructure for the casino operators to present the live gaming option. This infrastructure includes the studios (tables, equipment etc), high-definition cameras, technology to overlay the cards onto the players screen, a control room where games are monitored to make sure they are running smoothly and to lookout for fraud, and most importantly, the dealers. The dealers, typically college students who are easy on the eyes (both men and women), who go through a minimum of 100 hours of training (biggest training centre is in Riga). They are not only trained on how to run the games but to interact with customers as well, which can make/break the experience. Naturally, because of this model, employee costs are the biggest expense line (35% of revenue in 2019).

STUDIOS WORLDWIDE	
1. Belgium	5. Malta
2. Canada	6. Romania
3. Georgia	7. Spain
4. Latvia	8. USA

Evolution's game launches	
<b>2012</b>	
• Live Roulette	• Live Baccarat
• Live Blackjack	• Live Casino Hold'em
<b>2014</b>	
• Live Three Card Poker	
<b>2015</b>	
• Live Caribbean Stud Poker	
<b>2016</b>	
• Live Ultimate Texas Hold'em	
<b>2017</b>	
• Dream Catcher	• Live Caribbean Stud Poker Progressive Jackpot
• Live Casino Hold'em Jumbo 7 Jackpot	
<b>2018</b>	
• Lightning Roulette	• First Person Roulette
• Salon Privé range	• First Person Blackjack
• Dragon Tiger	• Live Texas Hold'em Bonus Poker and First Five Jackpot
• Infinite Blackjck	
• Football Studio	
<b>2019</b>	
• MONOPOLY Live	• 2 Hand Casino Hold'em
• Deal or No Deal Live	• First Person Lightning Roulette
• Lightning Dice	• First Person Dream Catcher
• Super Sic Bo	
• Free Bet Blackjack	
• Side Bet City	

<sup>4</sup> <https://www.evolution.com/news/evolution-wins-innovation-casino-entertainment-crazy-time-sbc-awards-2020>

<sup>5</sup> we have heard its roughly \$10k/month/table



Games are played via the casino operator’s website/app and besides a “Powered by Evolution” message before the game starts, the branding on the table/background makes it look like its operated by the casino itself (for dedicated tables). Players will play using their accounts with the casino operator and their money never interacts with Evolution.

### Game development and innovation:

One question we had internally is that how they can scale this business without significant capex cost. After all, as of early 2020 they only had 700 tables, and considering that say for example, a game of blackjack can only take between 5-7 players, certainly this was a limitation on throughput. To deal with this answer EVO has come up with a number of innovative games to deal with this problem. For example their Infinite Blackjack game ([click here](#) for a review of the game) allows for a theoretical unlimited amount of players to play the game at one time. The way this works is that each player is given the same first two cards, and then independently gets to decide if they want to stand, hit, double etc. Rounds are timed so that one player doesn’t hold up the game, and while you do have to wait for all players to make a decision, it’s much faster than a regular game as all players are making a decision at the same time. Games like this, and their wheel based games like [Crazy Time](#) (which has won numerous awards for innovation) give the company operating leverage. The innovation in games has driven the growth in the “bet spots”<sup>6</sup> ie number of bets placed during a given period. Given that there hasn’t been a huge increase in tables, shows that it’s the scalability of the games that are driving the growth of the company.



<sup>6</sup> Source: Company Presentation

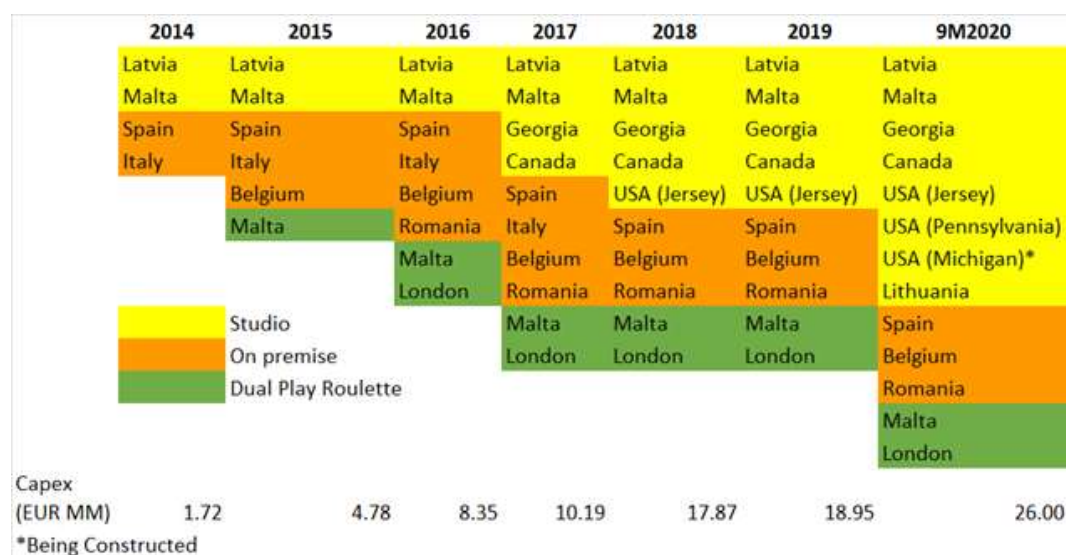


### Performance and key metrics:

EUR, mlns	FY-12	FY-13	FY-14	FY-15	FY-16	FY-17	FY-18	FY-19	9mths-09/19	9mths-09/20	TTM-09/20
Revenues	31	39	49	76	115	178	245	366	260	383	489
Rev growth%		24.0%	25.2%	57.3%	51.2%	54.5%	37.6%	49.0%		47.6%	
Personnel exp	16	22	24	34	53	72	98	126	93	95	128
Gross profit	15	17	25	43	62	106	148	239	167	288	361
Gross Profit growth%		10.6%	45.2%	72.4%	45.3%	70.7%	39.0%	62.0%		73.1%	
Gross Profit%	49.5%	44.1%	51.2%	56.1%	53.9%	59.6%	60.2%	65.4%	64.1%	75.2%	73.8%
Other opr exp	4	6	8	16	18	26	40	56	39	52	69
D&A exp	2	3	4	6	10	14	18	25	18	21	28
Total opr exp	6	9	12	22	27	39	58	82	58	73	98
Operating Profit	9	8	13	21	35	67	89	157	109	215	264
Operating Profit %	30.2%	20.3%	27.0%	27.6%	30.2%	37.5%	36.5%	43.1%	41.9%	56.0%	53.8%
EBITDA	10	9	15	25	41	76	100	169	126	235	278
EBITDA Growth %		-8.7%	61.4%	62.9%	64.3%	85.8%	32.0%	69.7%		86.0%	
EBITDA%	33.0%	24.3%	31.3%	32.4%	35.2%	42.4%	40.6%	46.3%	48.7%	61.3%	56.8%

As one can see from the above, EVO's business model is highly profitable. Top line is growing 40-50% a year, with gross profit margins of 75%+, and EBITDA margins of 60% plus. The margins for the company have improved overtime as more and more of their fixed costs (studios) are spread over more customers/games, showing clear signs of operating leverage. In the first 9 months of 2020 the company also produced \$252MM of free cash flow, showing that most of the profits are converting into cash. The company also puts up impressive ROIC numbers (off of negative net debt) in the 40-50% range implying a very strong moat over their business. EVO also endeavours to pay out 50% of its profit in dividends each year.

### Finance and capex requirement:



From the above image we can see that capex requirements for new studio construction are not too onerous. And while we have not split up maintenance capex from the above number, to be conservative, one can assume that launching a new studio costs anywhere between 3-5MM Euro.



Assuming the average studio has 90 tables (700 tables at the end of 2019 across 8 studios) that in 2019 revenue was around Euro 500K/table at a 50% margin (so 250K/table), the payback period per studio is less than a year.

### Growth levers:

We expect growth to come from three areas. The increase of the Total Available Market (TAM), inorganic growth via acquisitions, and international expansion (especially in the US).

TAM<sup>7</sup>:

	Euro bn (2019)	Growth p.a	5Y Projection (E bn)	Multiple
Online Gambling	50	11.50%	86	1.72
Online Casino	17	12%	30	1.76
Live Casino	4	38%	20	5.00

*Assumptions: Online Gambling is right now a Euro 50bn market, Online Casino is 28% of online gambling market, and Live Casino is 24% of Online Casino. We assume 2019 growth rates to continue for a while due to expansion in US, LATAM.*

Currently the Online Gambling space is in a nascent space, roughly 12-13% of the total gambling market. We expect that given the appeal of gambling online in a covid and post-covid world, the online market share will continue to grow. Further, Online Casino will grow in line with the online space, but Live Casino will grow significantly faster as EVO continues its expansion. Thus we see the size of the Live Casino market to be 5x bigger in 2024 than it is now.

### Acquisitions:

**NetEnt:** In September 2020, Evolution Gaming acquired NetEnt, a much smaller competitor in a public market offering. This acquisition of NetEnt was particularly shrewd due to the targets presence in the US (where EVO is trying to grow) and its portfolio of online slot games (where EVO has been weak). Slots are actually a very large chunk of online casino and for NetEnt, slots was 94%+ of game wins. Evolution acquired NetEnt for approximately \$2.1bn which was roughly ~30x 2019 EBIT (~\$63MM) or around 10x 2019 Sales (~\$215MM).

**Ezugi:** In late 2018 EVO acquired its much smaller rival Ezugi in a \$18MM deal, again to leverage its target's relationships in the US (New Jersey and Oklahoma). This deal shows that the industry is quite ripe for consolidation, and as EVO states in their Annual report: "The barriers to entry are relatively low, while the barriers to success are considerably higher." Thus many players might enter and find success in a niche, but will struggle to scale, thus giving a lot of acquisition opportunity to EVO.

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<sup>7</sup> Assumptions taken from EVO and Playtech annual reports and while some data is for Europe only, we've projected them for a global basis.



*New Geographies/States:*

**Revenue per geographical region**

Group (EUR millions)	Jul-Sep 2019	Oct-Dec 2019	Jan-Mar 2020	Apr-Jun 2020	Jul-Sep 2020
Nordics	6,1	6,1	6,2	6,7	5,8
UK	12,8	12,0	9,9	10,6	9,5
Rest Of Europe	46,5	53,3	59,8	62,4	65,6
Asia	13,9	17,7	20,8	28,2	34,8
North America	6,1	6,6	7,1	8,5	9,2
Other	9,3	10,2	11,4	12,1	15,1
<b>Total operating revenues</b>	<b>94,7</b>	<b>106,0</b>	<b>115,1</b>	<b>128,5</b>	<b>140,0</b>
Share of regulated markets	42%	40%	38%	33%	32%
Revenues, regulated markets	40,2	42,4	43,7	42,8	45,2

Growth across the world is not consistent for EVO as can be seen from the above chart. While the overall market will continue to grow, there are some parts of the world that will grow much faster than others. The UK for example, has seen a reduction of revenue by 20% yoy where as Asia has grown 2.5x (although we don't know much about what's driving that growth, as most of Asian gamblers do so through VPNs).

That said there is clear growth in North America (up 50% yoy) which since 2018 has seen a wave of states starting to regulate gambling and allow for online players to enter the market. Now most states are quite strict in terms of Live Gambling, requiring that operators who offer it have a presence in the state itself. This can be seen as a negative as it will require EVO to spend more capex as its scales, however it will also keep new players out. Further, we've seen EVO can get a new studio up and running relatively quickly and cheaply.

Evolution has partnered with several marquee operators in the US including Wynn, MGM and Caesars. EVO will provide their Live Casino games. In the press release with Caesars, the Head of Caesars online business stated the thesis in just one sentence "We're excited for players to experience the fun and action of playing at a Live Casino table, from your home or anywhere in Pennsylvania." EVO is also expanding in LATAM, and in November 2020 launched the first Live Casino service in Colombia. North American online gambling is meant to grow at a 14% CAGR through 2022 and LATAM is meant to grow 16%<sup>8</sup>.

**Competition:**

The Live Casino is space is actually quite fragmented with a number of small players, but according to our research EVO owns somewhere between 70-75% of the market share. The main competitor of EVO is Playtech, which is a UK listed company, with a market cap of GBP 1.47bn Euro. Playtech has a number

<sup>8</sup> Playtech 2019 AR





of business including B2B (Sports, Casino, Live Casino, back office services) and B2C (operates Casinos through its Snaitech brand and TradeTech which is a CFD broker). Live Casino itself is a small part of its overall business, and appears to be just one part of its entire B2B business, implying that revenues for Live Casino are much smaller than that of EVO. Further it seems they tend to have an inferior product with one employee stating “Playtech suffered from the quality issues. They were trying to copy whatever Evolution does with less time. And this is generally Playtech approach as a company. They try to copy as much and be faster than other companies.”<sup>9</sup>

Other than Playtech, EVO does have competition in Asia, with most of those business run out of the Philippines (which facilitate player from black/grey markets). However these are smaller and predominantly regional.

**Projection and valuations (as of 31 Jan 2021):**

Given the projections in the TAM section above, we believe that the Live Casino market will grow to \$20bn Euro by 2024. Most of that will go to the casino operator and Live Casino providers such as EVO and Playtech will take 10% of the top line as per the business model (note this is conservative as it does not account for monthly table fees). Assuming a 75% market share for EVO and a 55% EBITDA and discounting that value back to today we got an upside of 14% from the current EV.

To do a sanity check on our valuation, we also projected what revenue growth would have to compound at to get to a 2024 revenue of Euro 1.51 bn. This results in a reasonably 31% CAGR. We say reasonable as the average revenue growth rate for the last 5 years has been over 46%.

	Euro Bn
Market Size	20
market share	10%
Revenues	2.02
EVO market share	75%
EVO Revenue (2024)	1.51
EBITDA %	55%
EVO	31.35
EV in 2024	26.1
Cap Rate	10%
projected EV (4y)	17.82
Current EV	16.81
Upside	6.01%
Check	
2020 Expected Revenue	0.51
2024 Expected Revenue	1.51
CAGR	31%

The key risks to these assumptions include overall market size (ie if it doesn’t hit Euro 20bn by 2024) and EBITDA margins staying close to covid-levels (48% pre-covid, 60% during covid). However we have mitigated this by being conservative on revenues as explained above and using an aggressive cap rate. Market share at 75% could also decrease if EVO sees more competition. However our conversations with investors and market experts have mentioned that competitors have tried or at least looked into Live Casino, however it’s more operationally difficult than they initially suspected, and thus have stayed out.

A reasonable question about valuation would be to compare what EVO is currently trading at versus Playtech. Looking at street projections, EVO is trading at a EV/1Y FWD Rev at 25x, and EV/1Y FWD EBITDA of 41x. Playtech on the other hand is trading at 1.41x and 6.12x respectively! However one has to remember that Playtech has a number of issues including;

<sup>9</sup> Tegus interview “Evolution Gaming Group AB - Former Senior Product Owner at Evolution Gaming”



- Not focused on Live Casino, have a number of businesses including operating a casino, back-end software, a CFD trading tool, etc. In fact B2C is their biggest vertical.
- A recent history of declining organic revenues, and more recently a decline in overall revenues (for example revenues for H12020 were down 23% where as EVO was up 50%)
- Competing with their clients
- Founder's with a chequered past (although they are less involved now)
- Inferior tech

*Pro-Forma numbers including NetEnt acquisition:*

It's important that we also take a look at the company financials in order to account for the NetEnt acquisition. We can see that the TTM revenue numbers (ending Sep 2020) were up 39% from Euro 489MM to 681MM with EPS down 2.7% (versus the standalone company). While this might look a bit concerning there are a few things to bear in mind. The dilution is a one off, with growth in revenues from both businesses to provide operating leverage. Second, EVO management the merger will result in significant cost savings which have not been reflected in the earnings as of yet. Third, due to the acquisition of revenue, we'll see that our revenue targets in our model are actually quite conservative, and assuming a 31% CAGR from a base of Euro 681MM will actually result in a revenue of Euro 2bn vs the 1.5bn we are projecting as per 2024.

EUR, mlns	TTM-09/20	Proforma Mergedco TTM-09/20
Revenues	489	681
Personnel exp	128	176
Gross profit	361	505
EBITDA	291.8	384.2
EBT	266	307
Net income	210	243
O/S	180.0	212.0
EPS	EUR 1.17	EUR 1.14

**Key Management and Shareholders**

*Jens Von Bahr:* Jens is the co-founder of EVO and is currently the Chairman of the Board. He still owns 7.5% of outstanding shares jointly with Fredrik Österberg who is the other co-founder and board member.

*Martin Carlesund:* Is the current CEO (since 2015) of EVO and an industry veteran. Carlesund is an industry veteran who was brought on board along with a few other executives around the time the company went public. From what we can glean from interviews, Martin has built a culture of innovation, openness, and hunger. For example [this article](#) helps to describe his mentality about who he thinks about the company culture "We are crazy, paranoid; we really want to be better every day. We want to be the best company in the world. How are we going to get there? If you lose that, you should quit." His execution throughout his tenor has been excellent, with the stock price increasing 48x during his tenor. He currently owns a small portion of the company's shares (roughly \$27MM worth as of Jan 2021), but has 1.175MM in warrants outstanding.

*Todd Haushalter:* Todd is the Chief Product Officer and Games Operations. Todd has been responsible for the innovative games that EVO has launched and was brought on pre-IPO from MGM Resorts International where he was the VP of Gaming operations.



**Other Key Management:** David Craelius (CTO – ex Klarna), Olesya Ivanova (COO Latvia and Romania) who worked her way up from a Game Presenter in one of the studios, which speaks volumes of the company’s culture.

**Major Shareholders:** UK billionaire property developer brothers Richard and Ian Livingstone own ~8.5% of outstanding shares, and Ian is on the board.

**Risks:**

**Asia Risk:** Astute readers of this paper might have noticed a comment we mentioned about the Asia business being quite of opaque, which would have been easy enough to have left alone, however Asia made up 25% of revenues in this last quarter. The problem with the Asian market is that most major countries have bans against online gambling. For example China completely disallows it as does Singapore. Indonesia, by nature of Islamic rules and regulations will not allow it. Malaysia’s and India’s rules are grey where it’s illegal to host a site, but not necessarily to gamble on one. Philippines operate POGOs, Philippine Offshore Gaming Operators, who provide services to outsiders, but strictly ban use for Philippine residents (thus a lot of Asian gamblers, gamble online via Filipino sites). Vietnam has started to loosen some regulations, but online gambling is still banned. Some of these countries may choose to open up, some will stay quite strict, and some might become strict (i.e. Cambodia banning online gambling earlier in 2020). Because of this revenues from the region can be inconsistent. The risk here is not regulatory per se as remember, EVO does not operate any casinos, just provides tools for operations, so the risk is in their customers losing revenues/getting banned. That said, these rules are not entirely new, and revenue in the region has only grown over the last couple years.

**Unregulated vs Regulated:** In the “Revenue per Geographical Region” chart posted previously, you can see revenues from regulated market is just 33%. Now this is artificially low due to many dedicated tables being closed due to covid safe-distancing restrictions, and most dedicated tables are in regulated markets. However, even in non-covid times regulated revenues are ~45% on the whole. This means that we could see revenue disruption going forward. The negative is that grey markets move more conservative, which is a long-term blow to the company. However, there can be positive changes like in Germany that moves from unregulated to regulated, but that will see a limited period of depressed revenue, but in the long-run is a big positive for the company. As the CEO says: *“I would also like to give a few short comments on the development in Germany. Germany is on its way to be the next regulated market in Europe. As of July 2021, online casino games as well as other games will become regulated. However, until July 2021, a transition period will take place and several operators will stop offering Live Casino. We expect this to have a negative effect on our revenue during the transition to quantify the impact on our revenues at this point, but the indication is that the German market is around 5% to 10% of our revenues. Important to emphasize is that the move towards regulation in Germany is positive for Evolution, albeit there will be a nudge in the revenue curve during the limited period of time. In the long run, we expect the German players to return when Live Casino licenses are awarded in July.”*<sup>10</sup> What this

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<sup>10</sup> Q32020 Earnings Transcript



quote is that in the short-term a shift from grey to regulated markets will be a drag to the topline, but a huge boon to the company going forward.

### **Thesis**

Evolution Gaming is a market leader in the Live Casino supplier space, with a 70-75% market share. Its closest competitor is quite unfocused and has seen declining revenues over the past few years. The online gambling market is set to grow at a 12%+ annual rate over the next half-decade, and as a subset of that Online Casino and Live Casino will grow even faster. EVO has 60%+ EBITDA margins, impressively high ROIC numbers, a hoard of cash, and solid management. While not trading cheaply, even conservative assumptions show that the company is available for reasonable valuations, which in this market is quite impressive considering the stability, margins, and market share of the industry.