# Valuation of Evolution

## Master Thesis - Finance and Investments

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# Abstract

This thesis aims to investigate whether the share price of Evolution AB, the Swedish publicly listed B2B online casino solutions provider, as of December 31st, 2021, is based on fundamentals. To derive a thorough base for the valuation, an overview of the company, online gambling market, trends and prospects is provided. Firstly, an in-depth strategic analysis of Evolution is conducted through the frameworks of PESTEL and Porter's Five Forces. Subsequently, a financial analysis is presented where the historical performance of Evolution is analyzed as well as profitability gauges are compared to the industry averages. The findings from the strategic and financial analysis are compiled and displayed in a SWOT-analysis which is further used to derive a more accurate forecast for the Discounted Cash Flow model.

Through the use of the DCF model, an implied share price is presented followed by sensitivity analysis which examines the impact of assumptions regarding the applied discount rate, terminal growth rate and tax rate. Additionally, a scenario analysis in the form of a bull and bear case is presented to capture the more optimistic and conservative assumptions, where the identified threats and opportunities from the SWOT-analysis are implemented. In conjunction with the DCF, a listed peer analysis, regression analysis and precedent transaction analysis is performed to complement our valuation.

Our findings suggest that Evolution AB is fundamentally valued. Although this implies a significant premium to its peers, the discrepancy is validated when considering the superior financial performance of the company.

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# 1. Introduction, motivation and research question

## 1.1 Introduction

Gambling and betting are a form of entertainment which has existed for thousands of years, where archeologists identified evidence dating back to 2000 B.C that people utilized dice or other tokens in games of chance in China, Egypt, Japan and Greece (Encyclopedia, 2019). Despite its presence and enjoyment, it was not until the Medieval era, specifically in 500 to 1500, that several governments such as Spain, Germany and Italy decided to legalize gambling (Encyclopedia, 2019) and the first instance of a (legal) casino was established in Venice, Italy in 1638 when the Ridotto officially opened its doors (Schwartz, 2006). The US gambling industry primarily started its expansion in the 1900s. Following decades of nation-wide bans, the 1930s became the rejuvenation point for the US gambling industry as horse racing and charitable gambling was once again legalized in many states (Encyclopedia, 2019). Nevada soon followed, and legalized organized casinos which resulted in the creation of one of the epicenters of the gambling industry, Las Vegas, the second largest casino location in the world in terms of revenue, following Macau (Misachi, 2017).

Soon after the commercialization of the internet commenced around 1990 it became evident that it could be used for gambling and betting and by 1994, the first online casino game was launched by Microgaming, an Isle of Man based company (Parke et al., 2012). In addition to Microgaming's first platform launch for online gambling, another important invention crucial for the industry was developed by Cryptologic, a solution which allowed for secure monetary transactions over the internet (Spectrum Gaming Group, 2010). At the time, the decision to establish an online gambling platform was highly optimistic, as it was uncommon for people to have internet access, yet Microgaming saw an opportunity to not only establish a position in a potential market but to establish a new industry. The constant development of technology played an integral part since it provided opportunities to reimagine the gambling markets as well as the overall consumer gambling behavior (Griffiths et al., 2006). As the internet became more and more populated it allowed for an increased access to gambling, which could lead to increased consumption or even addiction according to Griffiths et al. (2006). Ethics aside, this would correspond to an increased and recurring demand. The technological developments further resulted in an overall decrease in cost, thus lowering the barrier of entry in addition to providing anonymity to the gamblers and thus counteracted the potential social stigma of going to the casino (Griffiths et al., 2006). All things combined resulted in the online

gambling market experiencing rapid growth shortly after its inception. By the end of 1996, there were a total of 15 operating gambling sites, a number which grew to approximately 200 in 1997. The industry was at this time estimated to generate USD 1bn in annual revenue which then grew to an estimated USD 2.2bn in 2000, of which the US accounted for two thirds of the market (Hammer 2001).

The turn of the millennium was also when Sweden opened its first casino, Casino Cosmopol, which was and still is operated by state-owned Svenska Spel. Svenska Spel has historically exercised full monopoly on all types of physical and online betting, gambling and other wager-involved games offered to the Swedish population (Svenska Spel, 2015). The regulation did however not restrict the Swedish population from participating in gambling on foreign platforms and thus private operators could register their company abroad to circumvent the monopoly regulation (DN, 2014). By 2018, foreign online operators had penetrated the market and accounted for 29% of Sweden's USD 2.5bn gambling industry (Giosué, 2019). To cope with the reality of the situation, the Swedish government-initiated reforms wherein Spelinspektionen (Swedish Gambling Authority) were authorized to approve private operators to offer their services to the Swedish population albeit under regulated conditions. A similar approach was adopted by several other countries, primarily within Europe. The current global online gambling market is however still in many ways unregulated - effectively segregating the market in two verticals, regulated and unregulated (Giosué, 2019).

The online gambling industry is generally thought to include any actor that provides online gambling services, as defined by the EU:

*"Online gambling services are any service which involves wagering a stake with monetary value in games of chance, including lotteries and betting transactions that are provided at a distance, by electronic means and at the individual request of a recipient of services"* (European Commission, 2011, para. 2.1).

Historically speaking, the key players within the online gambling industry have been the operators of land-based casinos as well betting houses where the product, i.e., games were offered directly to the end-consumer, D2C. However, the vast transformational change in the last two decades has provided opportunities for new positions within the online gambling value chain. The digitization of gambling

has provided for more niched and business to business focused operations, namely the production of online casino games and solutions and lead generation services to increase web traffic. The creation of these B2B oriented sub verticals has allowed for lucrative business opportunities with exposure to the online gambling industry and will thus be included in the scope of this paper.

## 1.2 Motivation

Two criteria were considered when choosing which public company would be the subject of a valuation analysis. First and foremost, the target company should be an active player in a fast-growing industry. Secondly, the target company should possess some unique characteristics or alternatively, be active in a unique or preferably, ethically questionable industry as this adds further implications on what may have an impact on the overall valuation. Online gambling has evolved significantly since its inception in the late 1990s and saw further growth following the COVID-19 outbreak. The industry is also heavily scrutinized given the ethical issues regarding addiction. Despite these ethical dilemmas and its related regulations, the industry is continuing to grow, making it highly interesting to analyze one of the most dominant actors within the industry from a strategic and financial perspective. Based on these considerations, we decided that a suitable target would be Evolution AB (hereafter Evolution), a Swedish headquartered B2B company which provides online casino solutions.

## 1.3 Research question

The aim of this thesis is to provide an in-depth analysis on whether the share price of the Swedish, publicly listed online gambling solutions provider Evolution, as of December 31st, 2021 is fundamentally valid.

The research question can thus be formulated as:

- *Is the share price of Evolution AB as of December 31st, 2021 based on fundamentals?*

Several aspects, both strategic and financial, must be discussed and analyzed to fully comprehend what drives the company's valuation. To do so, several sub-questions are considered throughout the paper:

**Industry**

- What are the current trends within the online gambling industry?
- Who are the main actors in the online gambling industry?
- How was the online gambling industry affected by COVID-19?
- Will the easing of COVID-19 restrictions have a material impact on the industry?

**Company**

- What is Evolution's business model?
- How has the company developed since its inception?

**Capital markets**

- How has the share performed since inception?
- What is the current market sentiment towards Evolution?

**Strategic**

- What external factors pose a risk or possibility for Evolution?
- Does Evolution hold a competitive advantage?

**Financial**

- How has Evolution developed financially, and what have been the main drivers?
- How has Evolution performed compared to selected industrial peers?
- What is Evolution's liquidity risk?

**Capital structure**

- What is Evolution's current and target capital structure, and what cost of capital does this imply?

# 2. Methodology

To get a clear and transparent view of the construction of the thesis, a presented method is essential, and it is further paramount to decide whether a qualitative- or quantitative approach will be taken. Saunders et al. (2016) highlight in their paper that one should use a qualitative method when the aim of the research is to develop and provide an in-depth analysis of experience- or behavioral based aspects. The quantitative approach on the other hand, is to favor when the aim of the research is to highlight or prove already existing theories (Saunders et al., 2016). Leavy (2017) further explains how a quantitative method involves identification of various variables and the relationship between them to create frameworks and understand and how these variables interrelate. Since the purpose of this paper was to provide an in-depth analysis and valuation of Evolution, whilst considering internal and operational factors as well as external macro- and microeconomic factors, the thesis was primarily based on quantitative data and empirical theory. There are however some aspects of the thesis that required estimations based on a subjective point of view. For instance, an intrinsic valuation of Evolution was provided, and thus forecasts of future cash flows were derived. The approach in this paper could hence be described as a mixed method (Johnson et al., 2007).

To maintain an objective perspective, the aim was to have a positivistic approach. This entails that the evaluator should separate themselves from the evaluation and conduct their research and interpret the data in an objective and unbiased manner (Stuart et al., 2015).

## 2.1 Theory

Several theories and financial models were applied to thoroughly address and analyze the research question as well as the related sub-questions.

### 2.1.1 Strategic theories

A PESTEL and Porter's Five Forces analysis have been conducted to identify external and strategic factors that could affect Evolution and the industry. Our findings were discussed continuously throughout the strategic analysis section and were further compiled in a SWOT-analysis.

### 2.1.2 Financial theories

For the financial analysis section, key performance measures regarding growth, profitability, operating efficiency, asset use efficiency and financial leverage have been derived to analyze Evolution's Return on Equity (hereafter RoE). Further analysis was conducted regarding Evolution's liquidity risk. The underlying financial drivers were further identified and compared to select industrial peers in addition to complementing the strategic findings in the SWOT-analysis.

### 2.1.3 Valuation theories

To answer the research question and its related sub questions, the primary valuation method was the Discounted Cash Flow model (hereafter DCF). In addition, three relative valuation approaches have been deployed to complement the DCF models, namely peer analysis, regression analysis, and precedent transactions.

## 2.2 Literature selection

A methodical literature review has been conducted to ensure that the sources used throughout this paper uphold a level of quality and credibility as to not compromise the findings of the paper. The aim was to predominantly collect literature from established academic journals, research papers published by accredited universities and educational material that has been provided to the authors during their tenure at Copenhagen Business School. However, in the instance that some information has not originated from the above-mentioned sources, the information has been heavily scrutinized to ensure its credibility.

## 2.3 Data selection

All the qualitative data in this paper is public information and have been collected from secondary sources as the authors have not personally been engaged in collecting the information directly. Due to limitations in gathering primary company specific quantitative data, secondary data is sufficient to derive an in-depth analysis. The historical data used in the valuation was retrieved from publicly available financial statements and annual reports as presented by Evolution. Information regarding listed peer's trading multiples and KPI's have been extracted from S&P Capital IQ whereas precedent

transaction multiples were retrieved from secondary sources such as company issued press releases and other media outlets.

## 2.4 Delimitation

To reach a thorough end-result and to provide an accurate amplification with the aim to answer the research question formulated in section 1.3, certain delimitations were incorporated. According to Simon (2010), delimitations can be an efficient tool to ameliorate the validity of the thesis and hence, the limitations of this research are critically evaluated. With every delimitation evaluated, there are both advantages and disadvantages to consider based on the specific scope and approach of the research. The delimitations of this thesis were created based on the aim of providing an adequate and accurate answer to our research question, whilst still providing a sufficient analysis. Thereby, the following delimitations have been considered:

- As the time period of this thesis runs over a semester, the valuation date was set to December 31st, 2021. To accurately assess the company's financial statements and strategic outlook at this time, the annual report for 2021 was considered. New information regarding the company that has been published and macro-economic events that have taken place following this date were not considered. However, given the recent world climate, primarily regarding Russia's invasion of Ukraine and the related economic consequences, the authors provided finishing remarks intended for future studies to consider.

- Due to lack of internal information, all quantitative data used in the financial analysis have been extracted from publicly available annual reports for the relevant companies included in the paper. A more thorough analysis could have been executed should the authors have had access to trial files which would have allowed for a further intricate breakdown of factors such as, operating margins, net debt and working capital by analyzing the drivers of each relevant account.

- A historical time period of four years was considered when conducting the financial analysis (FY18-FY21). The selected period is harmonious with Petersen et al. (2017) who argues that a historical period should be in the interval of 3-7 years. However, Damodaran (2011) highlights that uncertainty and large shifts in historical performance paired with a narrow time

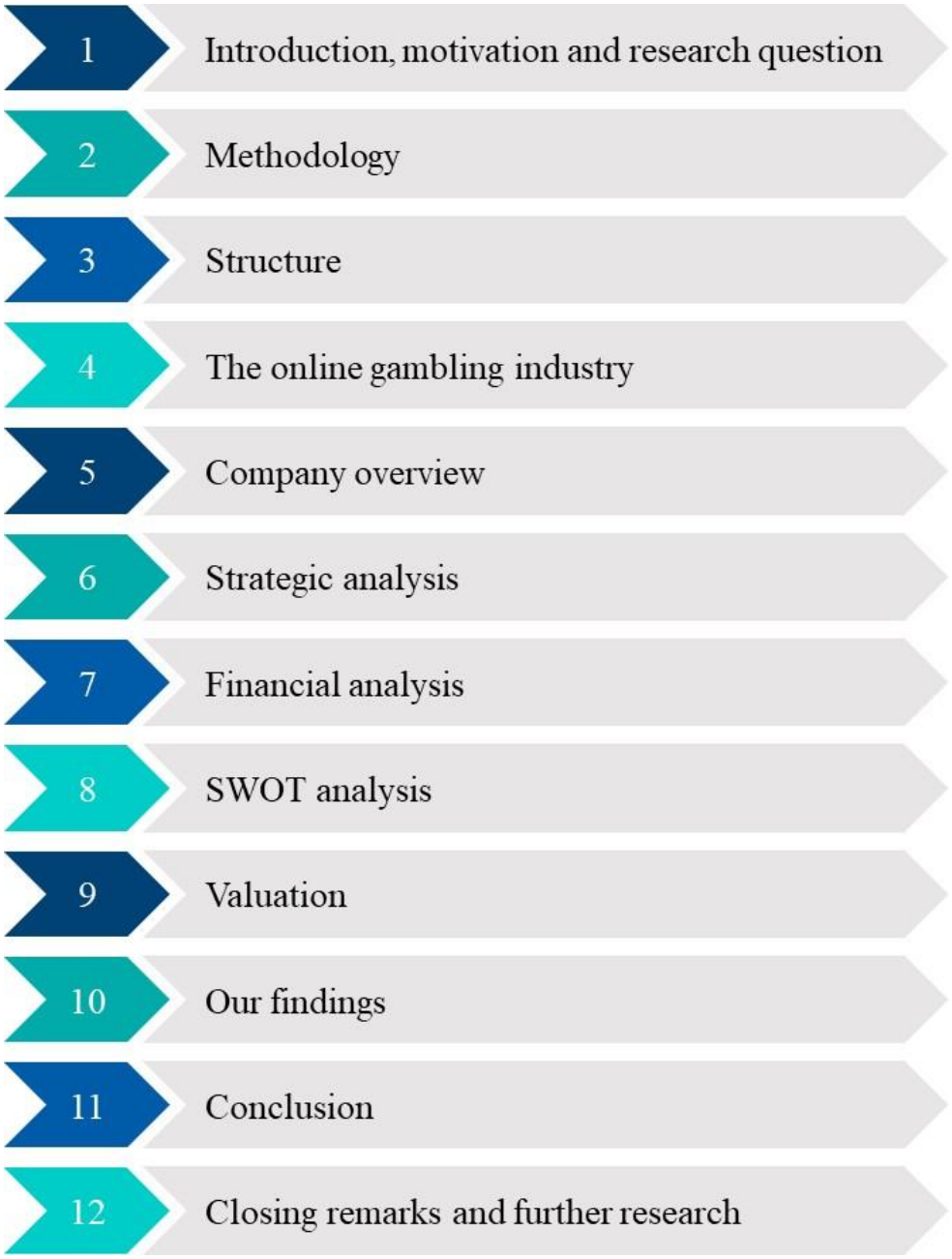
period may lead to complications and unreliable estimates. Evolution can objectively be described as having seen extraordinary growth, especially following the outbreak of COVID-19. Thus, the financials and business plan from 2015 are not reflective of Evolution in its current state. Thereby, a historical time period of 4 years was selected since it marks the beginning of Evolution's immense growth journey whilst also being in line with the range put forward by Petersen et al. (2017). The historical period was in turn considered in the forecast period which according to Petersen et al. (2017) should be determined to 5-10 years. As our historical period only includes a total of four years, the lower range of five years have been applied.

- Formal requirements as imposed by the University such as a maximum number of pages and character count have been considered, resulting in restrictions regarding further elaboration and analysis of certain views and approaches.

- As this is a well-formulated and high-level paper, which aims to provide the readers, potential investors and current shareholders with a valuable and comprehensive analysis, basic financial terms and theory is expected to be familiar.

## 3. Structure

To assess and answer the research question the thesis is divided into 12 unique parts. Each part aims to provide differentiated information which in turn is applied in the final valuation of Evolution. The structure is logical and constructed for the reader to easily follow and comprehend each subsequent section.



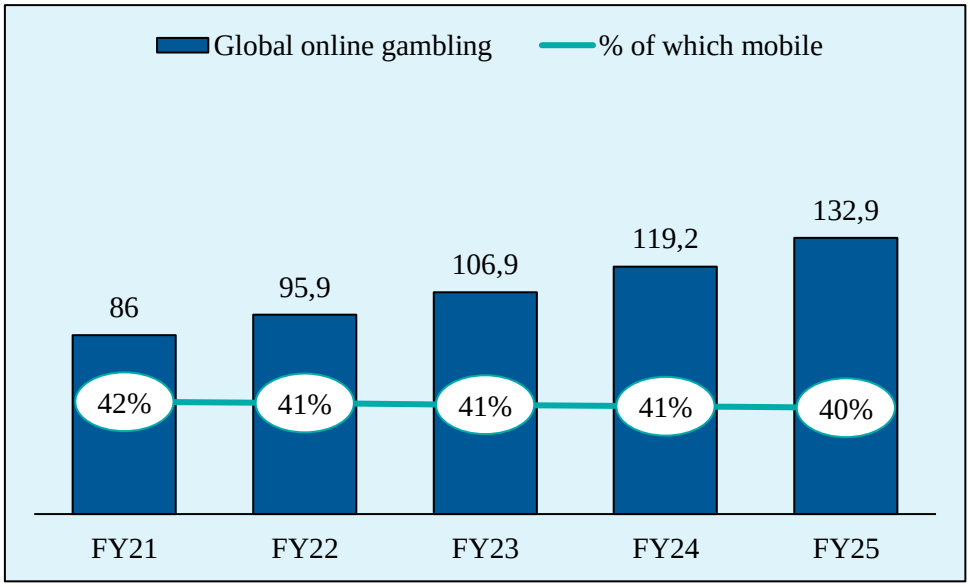
# 4. The online gambling industry

## 4.1 Market trends

The online gambling industry has seen rapid growth since its inception in the late 1990s, having bolstered the global accumulated revenue from just over USD 2.2bn in 2000 (Hammer, 2001) to a total of USD 86bn in 2021 (Evolution, 2022a), corresponding to a compounded annual growth rate (hereafter CAGR) of roughly 19.1%. The global gambling market, however, was valued to approximately USD 392bn in 2021, thus implying that the online gambling segment accounted for 22% (Evolution, 2022a). The growth is expected to continue in the coming years, albeit at a slower pace of 11.5% per annum and reach an implied market valuation of USD 148bn in 2026 (Mordor intelligence, 2021). The online casino segment, which is a sub-vertical within the online gambling market, has displayed a CAGR of 19% for the period 2017 to 2021, where North America has been the fastest growing market (Evolution, 2022a).

The historical growth of the industry has been benefited by the technological advancements which have been made in the 21st century. One large contributing factor has been the development of mobile devices, namely the release of iOS and Android smartphones which resulted in online mobile gambling becoming a catalyst for further growth (Gambling Sites, 2021). The same holds true for the video game market, which in many ways is similar to that of the gambling market. In recent years, the technological advancements of smartphones in combination with an increased popularity in free-to-play revenue models has resulted in the mobile games sub industry accounting for approximately 57% of the entire video gaming market revenue in 2020 (Clement, 2021). A UK-study on gambling, performed in 2020 indicates a similar trend, where more than half of all participating gamblers utilized their mobile devices, a number which increased to 75% when only assessing individuals in the age 18-34 (UK Gambling Commission, 2021a). Another report estimates that the mobile gambling market will display an annual growth rate of 10.7% for the period 2020-2025, reaching a total valuation of USD 53.8bn by 2025 (Market Research Future, 2020).

**Graph 1: Global gambling market development**




*Source: Evolution (2022a), Mordor Intelligence (2021), Market Research Future (2021)*
*Compiled by authors*

Applying the 11.5% growth rate of the global online gambling industry up until 2025, this would imply that the mobile online gambling segment will account for roughly 40.0% of the total online gambling market in 2025.

## 4.2 Types of games

There are many similarities between gambling and gaming, and the two terms are often used interchangeably (GREO, 2021). There are however some games which hover on the verge of both. Poker for example, although legally considered to be a game of chance in most countries, could arguably be regarded as a game of skill or even defined as a sport since the outcome of the game primarily depends on the player's individual experience, aptitude and skill (Meyer et al., 2013). Similar comparisons could be made to blackjack, wherein a player's success is based on a combination of experience and chance as there are a magnitude of available books, articles and other sorts of documentation regarding optimal gameplay strategies, all of which are based on statistics. However, if you are dealt unfavorable cards despite the statistical advantage, you will suffer a loss. Finally, there are pure games of chance, often referred to as RNG-games, short for Random Number Generator, such as slot machines, roulette or the more traditional lotteries. The global gambling

industry could thus be separated into two segments, namely land-based and online, wherein the online portion is fragmented into live casino, where a potential skill floor could be considered, and RNG which is purely based on chance, as shown in Figure 1**.** This thesis will focus primarily on the RNG and live casino fragment which held a market share of the global gambling market of 15% and 7%, respectively, and have grown at a CAGR of 14.7% and 31.1% in the period 2017-2021 respectively (Evolution, 2022a).

**Figure 1: Global gambling market FY21**


*Source: Evolution (2022a)*
*Compiled by authors*

## 4.3 COVID-19

A more recent event which had an impact on the gambling industry was the outburst of the COVID-19 virus. The Pandemic heavily affected the entire global economy, with some estimates indicating that the pandemic reduced the global economic growth in 2020 to an annualized rate of around -3.2%, with a recovery of 5.9% projected for 2021 (Jackson et al., 2021). The global gambling market was heavily affected as well and decreased in value from EUR 392bn in 2019 to EUR 298bn in 2020, however, the global online casino market increased from EUR 13.4bn to EUR 16.5bn in the same period (Evolution, 2021a).

A study performed by the University of Bristol on the UK population showed that although individuals gambled less frequently as a result of physical casinos and betting shops being closed, the consumption of online gambling, including bingo, poker and casino-games, increased by a factor of six (Emond et al., 2021). Previously frequent gamblers showed to be more than twice as likely to

participate, and individuals who had financial issues prior to the pandemic were more likely to gamble during the lockdowns (Emond et al., 2021). Another study performed by Håkansson (2020) in Sweden indicated that the restriction of sports games and events as a result of lockdowns, led to consumers increasing their interest in online gambling platforms. It further showed that the closure of many physical gambling establishments led to many operators going digital. A survey conducted by Hodgins and Stevens (2021) on middle- and upper-income western countries showed that one in three participants signed up for a new online gambling account during COVID-19, and that 1 in 20 started online gambling. The proportion who participated in gambling four or more times a week increased from 23% to 32% whilst the proportion of gambling being conducted online increased from 62% prior to COVID-19 to 78% during COVID-19 (Hodgins and Stevens, 2021).

# 5. Company overview

## 5.1 Evolution of Evolution

Evolution Gaming Group AB was founded in 2006 by the trio consisting of Jens von Bahr, Fredrik Österberg and Richard Hadida with the intention of providing live casino games. This refers to the development and provision of games such as Blackjack being streamed live from a casino table, and where the online players can place their bets through the computer in addition to communicating with the dealer through voice- or text chat (Phoebe, 2019). The idea behind a live casino is to provide the gamblers with the sensation of being present on the casino-floor from the comfortability of your home. The founders acquired a small studio in Riga, Latvia and installed a total of five tables where Blackjack, Baccarat and Roulette was played through external gambling operator websites. In 2015 the company issued an initial public offering on Nasdaq First North, the company's first instance of raising external capital which amounted to approximately SEK 1.25bn raised at an implied equity valuation of SEK 2.9bn (Evolution, 2015).

In 2020, the company's offering was extended to also include online game shows and slot machines as well as further additions to their online casino segment, following which the company announced the corporate brand change from Evolution Gaming AB to Evolution AB to embrace the diversity of the company's activities and operations (Evolution, 2020a).

As of December 31st, 2021, Evolution develops, markets, produces, licenses and runs fully integrated, white-label online casino, live game and RNG solutions for more than 600 B2C game operators around the world. (Evolution, 2022a). Given the overall market trends of online gambling becoming the prominent outlet to reach gamblers, the company's customers also include a growing number of land-based casinos that are tapping into the growing market by expanding their offering to online casinos. The company reported revenue exceeding EUR 1bn and has increased its market capitalization to more than EUR 26.8bn (S&P Capital IQ, n.d.).

## 5.2 Evolution in 2021

Evolution is headquartered in Stockholm, Sweden, and has direct ownership and is the controlling entity of all operations and products developed by Evolution Malta Holding Ltd and NetEnt AB which in turn hold the controlling interest of a total of 61 entities globally, making the company highly international (Evolution, 2022a). In 2021, the company had a total of 11,447 average number of employees spread across more than 14 countries as shown in Table 1.

**Table 1: Average number of employees per country**

| Average number of employees | 2018 | 2019 | 2020 | 2021 |
|---|---|---|---|---|
| Latvia | 3 562 | 3 456 | 2 959 | 2 878 |
| Malta | 664 | 665 | 864 | 1 080 |
| Georgia | 413 | 1 984 | 2 770 | 4 773 |
| Romania | 316 | 217 | 501 | 611 |
| Canada | 92 | 162 | 165 | 386 |
| USA | 52 | 141 | 283 | 866 |
| Belgium | 23 | 18 | 100 | 18 |
| Sweden | 10 | 12 | 31 | 196 |
| Other countries | 55 | 339 | 177 | 639 |
| **Total Group** | **5 187** | **6 994** | **7 850** | **11 447** |

*Source: Evolution (2022a; 2020b)*
Compiled by authors

A vast majority of the employees either operate, oversee, or organize the casino tables, where 86% of the full-time-equivalents (hereafter FTEs) work as either hosts or dealers at the company's tables across its studios (Evolution, 2022a).

Evolution has several studios worldwide as can be seen in appendix 1, however the three main production sites in which most Evolution's games are developed, tested and launched are located in Latvia, Malta and Georgia (Evolution, 2022a). Many of the operating sites have been established in countries in which it is a requirement to be physically present in the market in which it operates (Evolution, 2022a). In total, the company operates more than 1,000 live tables on behalf of their customers, in addition to a handful of on-premises tables for its land-based casino customers.

### 5.2.1 Product offering

Since the company's launch in 2006, Evolution has developed and completed over 50 game launches, excluding those added by the recent NetEnt and Big Time Gaming acquisitions. Its current offering is encompassed by the company in the segments *live game shows, online casino, RNG table games & first-person games* and *RNG slot games* (Evolution, 2022a).

#### 5.2.1.1 Live game shows

The live game show segment was first introduced by Evolution in 2017 with the releases of Dream Catcher followed by Lightning Roulette in 2018, where the idea was to appeal to a new player segment. Many of the games offered bear a resemblance to TV game shows such as Monopoly and Deal or No Deal but with added technologies such as virtual reality which adds further appeal and excitement to the participants. The long-term goal is to establish live game shows exciting enough to not only attract a solid player-base but also viewing base, meaning that the end-users will watch the show for enjoyment despite them not actively participating (Evolution, 2022a), much like the TV game shows. Despite the segment being relatively young compared to the live-casino, it has thus far proved to be highly successful and welcomed by the end-customers.

#### 5.2.1.2 Online casino

The online casino segment is in many ways the staple offering of Evolution as it was the original market segment for which they developed their products. Evolution themselves describes the segment synonymously with "classic live table games" which includes blackjack, baccarat, roulette as well as the most popular poker-based games such Texas Hold'em. Within the online casino segment, Evolution offers their advanced and exclusive solutions, which includes VIP poker-, and blackjack rooms or native speaking dealers. The games themselves, which are live streamed, are identical to that of the traditional versions, however Evolution aims to improve the overall gambling experience via technological improvements such as allowing for an unlimited number of players in a blackjack game or the possibility to place "side-wagers" on the outcome of the game (Evolution, 2022a).

#### 5.2.1.3 RNG table games & first-person games

Similar to the online casino segment, the RNG table and first-person games segment allows the customers to play games such as baccarat, roulette and craps. In contrast to the online casino and the classic live table games, this extension puts the customers in a completely digital environment, in a so-called first-person perspective. Customers playing in the first-person games are also offered the opportunity to "go live" in which they are transported to the live streamed version of the games. Offering a purely digital gambling environment further allows for Evolution's customers to fully customize the interface to better represent its brand (Evolution, 2022a).

#### 5.2.1.4 RNG slot games

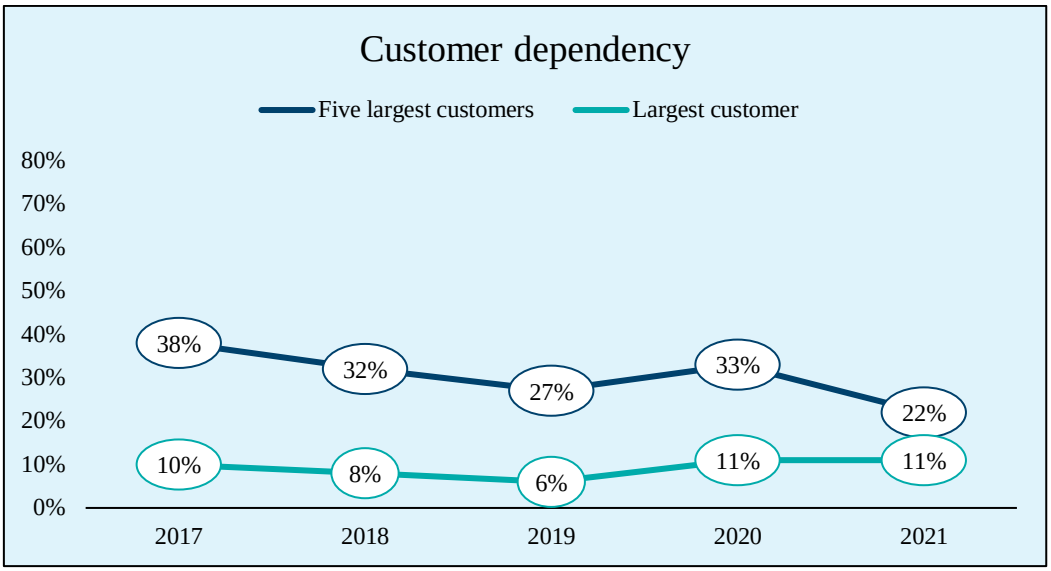
The RNG slot games segment was first introduced in Evolution product portfolio in 2020 in relation to the acquisition of NetEnt and Red Tiger which brought more than 350 RNG slot game titles. The implementation not only provided a new scope of offering but further allowed for additional up-sell and implementation opportunities in Evolution's previous offerings (Evolution, 2022a).

## 5.3 Customers

Evolution's customer base consists of several of the world's largest online casino, gambling and betting operators as well as a growing number of physical casinos. The greatest growth factor originates from the existing customer portfolio since in general, operators increase the scope of their live offerings. This also allows Evolution to follow the existing customers into new markets and reap indirect benefits from their customers' independent growth (Evolution, 2022a).

At the end of 2021, Evolution's customer portfolio of online operators and land-based casinos surpassed 600 (Evolution, 2022a). The customers usually offer a broad portfolio of various game verticals which include RNG-games such as slots, poker, live casino and bingo. Adopting a B2B oriented business allows for building long term partnership agreements with its customers, which can allow for large portions of recurring revenue in the foreseeable future. As of 2021, Evolution's largest customer accounted for 11% of the group's total revenue, whilst the five largest customers accounted for 22% (Evolution, 2022a). This can cause a high level of customer dependency, which is further discussed in section 6.2.1. The development overtime has however been a reduction in customer dependency as displayed in Graph 2.

**Graph 2: Evolution's customer's revenue share development**



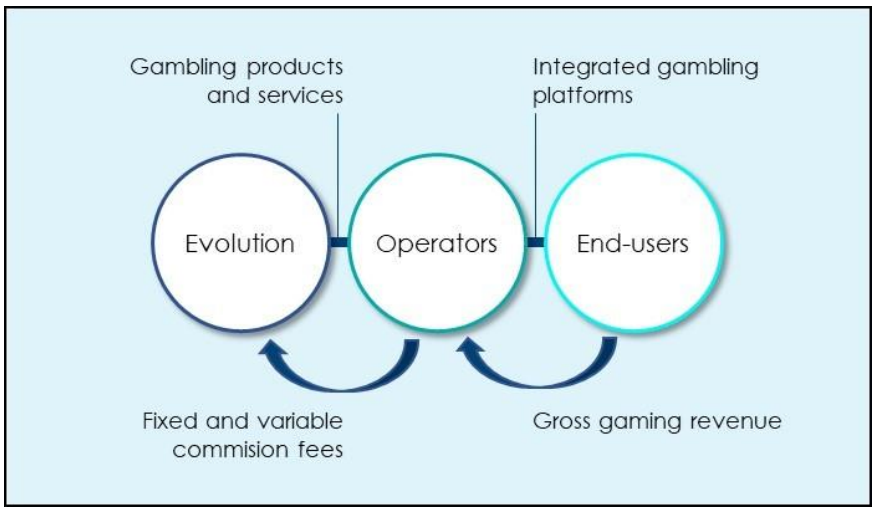

*Source:Evolution (2022a, 2020b, 2019a)*

Compiled by authors

## 5.4 Revenue model

The majority of Evolution's revenue stems from provision fees for the RNG- and live-casino offering which is paid by the operators on a monthly basis. The provision amount is based on the gross gaming revenue (hereafter GGR), which is calculated as a percentage of the profit generated by the operators through the use of Evolution's casino offerings (Evolution, 2022a).

**Figure 2: Evolution revenue model**




*Source: Evolution (2022a)*

Compiled by authors

Regarding live casino, the simplest of agreements usually entails availability to, and transmission from tables. The more advanced agreements enable for a custom-made experience for the end-user with VIP-service, dedicated tables, and native speaking croupiers. The more advanced agreements further allow the operators to offer a more exclusive gambling experience to their customers, allowing for a competitive advantage (Evolution, 2022a). Fees for dedicated tables are charged as a fixed cost monthly which is invoiced towards operators who have chosen to provide dedicated tables for its end-users. The dedicated tables are reserved and used exclusively by the individual operators and can be adjusted and customized for the operators needs and desires. The fee might vary between months depending on various factors such as type of game, active hours and number of tables but is not variable in the sense that it is independent of the GGR generated by the table. In addition to provisions and fees for dedicated tables, Evolution has minor income streams related to potential set-up costs which are being invoiced towards new customers when the casino offers are being put into production (Evolution, 2022a).

As stated by Evolution (2022a), an advantage of the company's revenue structure is the combination of fixed and variable fees. The fixed portion of the revenue model allows for more certain and predictable cash-flows whilst the variable commission fee portion allows Evolution to tap directly into the overall growth of the underlying gambling market. The variable commission does however leave Evolution indirectly exposed to end-customers, which is further discussed in the strategic analysis (Evolution, 2022a).

## 5.5 Cost structure

Personnel costs account for the majority of Evolution's cost base, and the company had an average of 7,917 FTEs as of 2021, of which a majority were in eastern Europe, primarily in Latvia and Georgia, as displayed in Table 1. The personnel costs are primarily related to staffing and recruitment within the operational activities as well as IT and product development. Other costs are mainly comprised of royalty fees, communication, consultants and other overhead costs (Evolution, 2022a).

Additionally, costs associated with product development and product innovation also make up a significant part of Evolutions cost base in two forms, as explained in the 2021 annual report (Evolution, 2022):

- Direct form related to operating expenses
- Indirect form related to depreciation and amortization of the capitalized development costs which is further discussed in section 7.1.4

## 5.6 Acquisitions

Evolution has a clear focus of creating organic growth through its customer optimization, product innovation as well as eminent operational ability. Additionally, to achieve a greater market position worldwide, Evolution has also performed selective strategic acquisitions. Since the beginning of 2019, a total of three acquisitions have been completed.

In November 2018, Evolution entered into an agreement to acquire the live-casino provider Ezugi. The transaction was completed on a cash basis with an initial enterprise value of approximately USD 12m with a potential maximum earn-out of USD 6m. The acquisition rationale was to increase Evolution's geographical presence and further accelerate its growth in key markets such as the US and Latin America. According to Jens von Bahr, the acquisition was purely strategic and further explained how Ezugi added a well-established development team and operational resources (Evolution, 2018).

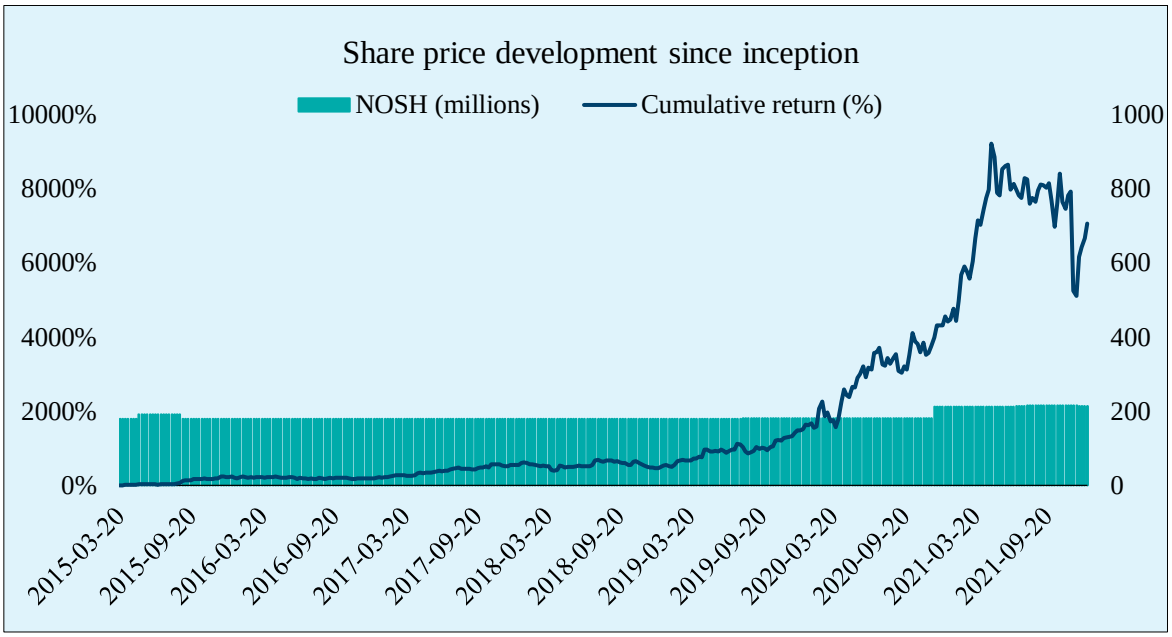
In June 2020, the company announced a public offer to the shareholders of the Swedish, publicly listed digital entertainment company NetEnt which developed games as well as system solutions for gaming operators, primarily RNG Slot games. The proposed offer was to sell the shares in exchange for 0.1306 newly issued Evolution shares - corresponding to a total consideration of approximately SEK 19.6bn (Cision, 2020). Co-founder Jens von Bahr stated that the inclusion of NetEnt online slot offering marked a significant step for the company's long-term aim of becoming the global market leader within the online casino industry (Cision, 2020). In addition to the operational synergies in terms of product offering market outreach, the transaction further allowed Evolution to take advantage of NetEnt's already established market position in the US. The acceptance period for the public offer expired in late October of 2020, when the acquisition was completed.

In April 2021, Evolution strengthened its market position further with the acquisition of Australia-based Big Time Gaming (hereafter BTG), a market leader within online slot machines, adding further

to its portfolio which was incorporated in relation to the acquisition of NetEnt. Jens von Bahr commented on the acquisition that BTG's focus on innovation and creation of unique gaming experiences was a perfect fit to the culture of Evolution (Evolution, 2021b). The acquisition further allowed Evolution to tap into the Australian market, which has the highest number of casino gamblers in the world (European Business Review, 2021a). The initial purchase price amounted to EUR 220m, in addition to potential earn-outs based on BTG's EBITDA for the financial years of 2022/23 and 2023/24. The maximum earn-out can amount to EUR 230m and will be paid during 2023 and 2024. The initial payment was financed with EUR 80m in cash whilst the remaining portion was paid with newly issued shares at a share price based on the weighted average price from March 23rd to April 7th, where approximately 1.12 million shares were issued. The potential earn-outs will be financed with 70% cash and 30% newly issued shares (Evolution, 2021b) which is further discussed in section 9.1.4.9.

## 5.7 Stock price development

**Graph 3: Stock price and NOSH development**




*Source: S&P Capital IQ*

Compiled by authors

Evolution was listed on Nasdaq First North on March 20th, 2015 and was accepted for listing on the main market, Nasdaq Stockholm, in June 2017. Since its IPO, the share price saw immense development and increased to roughly SEK 960 per share as of April 26th, 2019 (S&P Capital IQ,

n.d.). At this time the board decided to perform a stock split where every existing share was split into five new shares to allow for higher liquidity and accessibility for private investors (Evolution, 2019b). The share experienced its largest boost between January 2020 and January 2021 where the share increased by 196% YTD which likely was driven by the COVID-19 pandemic and the enforced lockdowns (Kantis et al, 2022). The stock reached an all-time high of SEK 1,672 (SEK 8,360 pre-split) as of April 30th, 2021, and at the end of December 2021 the share price stood at SEK 1,285 (SEK 6,425 pre-split), corresponding to an increase of 7,939% from its IPO subscription price of SEK 16 post-split. The price development corresponds to a monthly compounder increase of 5.5%.

Since January 2021 Evolution has been included in the OMX Stockholm 30 Index, which is a stock capitalization-weighted market index for the Stockholm Stock Exchange (SSE), consisting of the 30 most traded stocks in terms of value (Nasdaq, n.d.). Given Evolution's somewhat unique and innovative operations, paired with the ethical dilemma of the gambling industry and its substantial value increase, the company has drawn a lot of attention from both private and institutional investors. The company is currently monitored and covered by multiple active equity analysts from well-known investment banks such as Goldman Sachs and CitiBank (Evolution, 2022a).

The number of shares outstanding (hereafter NOSH) has in general remained stable. Since its inception, the company has completed a handful of new share issues which has been primarily in relation to the acquisitions but has also pursued buy-back programs to some degree (Evolution, 2022a). A company's financing procedure is important to observe as although share issues are generally conducted to finance progressive development initiatives such as market expansion, and are thus positively welcomed by the market, it could carry a risk of dilution (Berk and DeMarzo, 2016). Buy-backs on the other hand indicate that the company is not using its finances for expansion, however it allows the remaining shareholders to effectively increase their ownership in the company (Berk and DeMarzo, 2016). As Evolution is quite neutral in this regard, it should not be considered as a substantial shareholder risk.

## 5.8 Ownership

The monumental development of the stock price has naturally resulted in Evolution becoming a savers favorite resulting in 110,648 shareholders as of December 2021 (Evolution, 2022a). The same number amounted to 67,515 by the end of 2020 and 17,860 by the end of 2019 (Evolution, 2021a).

Despite the company being a savers favorite (Andersson, 2022), it is primarily backed by large international, institutional investors where the top 10 largest shareholders account for 49.6% of the total capital and votes as can be seen in appendix 2. The largest individual shareholder is the US-based investment manager Capital Group which holds 15.7% of the capital and votes (Evolution, 2022a). Having institutional investors is commonly a positive sign of the company's operations, as it could be considered as having "smart money". However, as institutional investors commonly acquire a large portion of the share capital, this could severely affect the company in the event of a sell-off both in the actual change of the price as a result of the sale but also due to the sentiment which spreads among the remaining investors (Berk and DeMarzo, 2016). Such an event took place in May 2021 when the founders sold shares for a value of SEK 4.2bn following which the share dropped close to 14% (Hultgren, 2021).

# 6. Strategic analysis

As Evolution has indirect exposure towards end-customers due to their mixed revenue model, the company is further subject to threats, regulations and competition enforced on the online operators through which their solutions and games are broadcasted. Thus, the strategic analysis incorporates factors which affect the entire online gambling industry, i.e., both operators and solutions providers since Evolution has exposure in both segments.

## 6.1 Pestel

This section is dedicated to performing a PESTEL analysis on the online gambling industry as well as Evolution as a sole entity to derive underlying market movements which may influence the company's prospects. To gain an increased understanding and comprehension of a certain business environment, Perera (2017) argues that conducting an analysis on a company through a PESTEL point of view is highly efficient, and further provides a solid foundation to extend and summarize the findings in a SWOT analysis. The key strengths of the framework are that it considers and evaluates factors prevalent in the external environment with the purpose of forming a conclusion regarding said market outlook, current and coming trends as well as overall attractiveness (Whittington et al., 2019). The analysis may result in findings regarding the company's strengths as well as weaknesses, but most importantly which components or factors will have resulted in those characteristics. The framework consists of six separate components, or external factor subgroups, and these are:

**Political** – refers to how political stability and / or governmental influence such as trade-, and tax policies, de-regulations and internal conflicts can affect the selected industry in which the target company operates

**Economical** – refers to how the general economic performance regarding for example, current as well as projected growth, changes in interest rate and inflation, labor costs, and unemployment rate in the countries / regions in which the target company operates within can have an affect

**Sociocultural** – aims to investigate how cultural patterns, attitudes, and norms towards the targets company's industry as well as more general aspects such as religion and ethics, consumer behavior and socio-cultural changes can have an affect

**Technological** – refers to how technological advancements such as automation, patents and general technological awareness among the industry professionals and end-users can impact the selected industry

**Environmental** – refer to various ecological implications caused by, and environmental protection requirements applied to the selected industry, and includes factors such as pollution, recycling, and climate change

**Legal** – relates to legal requirements such as employment laws and industry specific regulations and how these can affect the selected industry

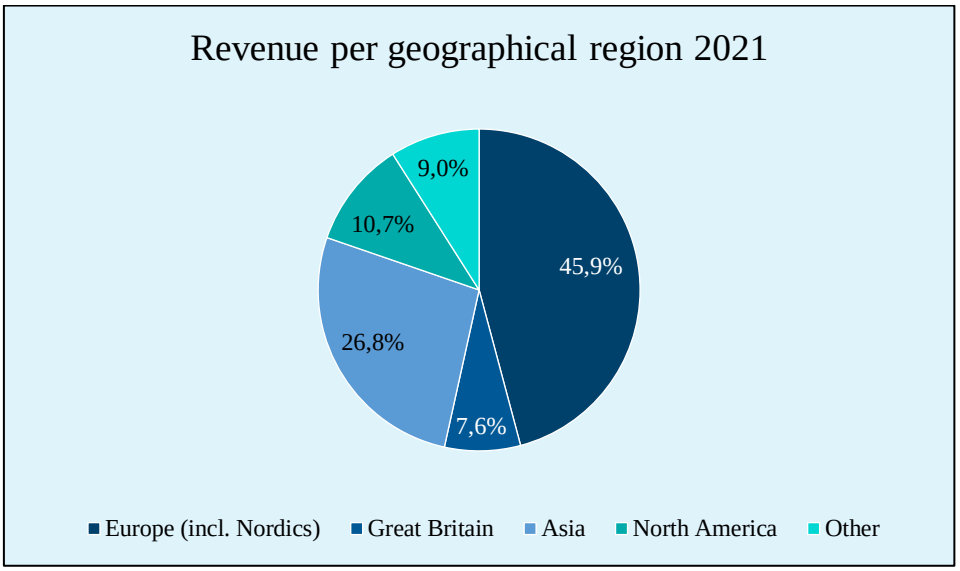
Some limitations and / or guidelines which should be taken into consideration when conducting a PESTEL analysis is that one should attempt to avoid ambiguity as well as practice caution when estimating these external factors when available data is insufficient (Perera, 2017). Although the framework in theory allows for one to identify the strengths or prospects prevalent within the industry, the key takeaway from the analysis results in the risks for the associated business, which in turn can lay the foundation of decisions regarding the business development. Yuksel (2012) states that a PESTEL analysis is a solid framework to utilize to gain knowledge of an industry's long-term prospects and is thus an essential tool when conducting an in-depth valuation as these prospects will be implemented in the forecast period.

### 6.1.1 Political

The political leg of the PESTEL analysis could arguably be the most impactful of all the factors when analyzing the online gambling industry. As discussed in the introductory section of this paper, the world of gambling and betting has been subject to governmental regulations since its inception. These factors are further intricate since Evolution is a multinational company with operating units spread across multiple countries and customers in even more so. This argument is further exacerbated since Evolution's revenue model also consists of a variable parameter based on the GGR generated by their games as described in section 5.4**.** This implies that Evolution is also subject to regulations in countries in which their customers' customers (the end users, i.e., the gamblers) are residing. Therefore, Evolution is subject to governmental regulations and influence in a multitude of countries. The exact geographical location of Evolution's customers and the gamblers is not explicitly stated in

any annual report of the company; however, the company does disclose the revenue per geographical region.

**Figure 3: Evolution revenue split**




*Source: Evolution (2022a)*

Compiled by authors

In an ideal world, the revenue would be categorized on a country-basis as this would allow for a thorough analysis of the regulatory landscape in each individual country – however as this is not the case, a more general analysis will be conducted across the regions displayed in figure 3.

#### 6.1.1.1 Europe

A vast majority of Evolution's revenue is generated from within Europe. Something that is quite interesting however, and that results in further complications for the analysis is that there is no sector-specific EU legislation in the field of gambling services. Instead, each country can independently establish their own framework and regulation for the industry under the condition that said regulations complies with the Treaty on the Functioning of the European Union (TFEU) as interpreted by the Court of Justice of the EU (European Commission, 2021). In a more general sense, most EU countries allow for some sort of online gambling / RNG games, with some discrepancies. Given the relative novelty of online gambling, up until 2009 most countries had either no instated regulations or only state-owned online gambling monopolies were permitted, as was the case in Sweden (EGBA, 2021). A study conducted by the European Gaming and Betting Association (EGBA) in 2021 however

showed that substantial changes have been made since then and that 25 out of 29 countries have introduced a so-called multi-licensing model for the purpose of regulating online gambling. This method, which was adopted by Sweden in 2018, allows for both private- and publicly owned companies to obtain a license to operate online gambling and casino activities (EGBA, 2021). Of these 25 countries, a total of 21 have adopted full multi-licensing whilst four countries have a mixed approach where Hungary and Slovenia have a monopoly only for sports betting and Austria and Poland have monopoly for casino gaming and poker. Finland and Norway are the sole countries which still hold state-wide monopolies on all online gambling activities. The only country which still has no online gambling specific regulations is Luxembourg (EGBA, 2021). Changes or re-regulations of the licensing system or in the requirements needed to obtain these could thus pose a potential risk to Evolution and its competitors. A recent example of this took place in September of 2021 when the Dutch Ministry imposed new regulations that required foreign operators to obtain a license for their operations. Although this event had no direct impact on Evolution, it did impact its national companion, publicly listed online slot machine and gambling operator Kindred Group, which following the announcement ceased all operations aimed at Dutch citizens until such a license can be obtained. The decision resulted in an estimated GBP 12m decrease in Kindred Group's EBITDA (Kindred, 2021a). Evolution further highlights in its annual report that approximately 40% of the company's revenue in 2021 were generated from regulated markets (35% in 2020), but the figure is not tied to Europe specifically (Evolution, 2022a). Although Evolution's entire revenue base is in some forms risky since re-regulations and changes of current laws could be imposed, having a large portion of the revenue based in an unregulated market poses an even higher risk as operations in these countries could be forced to be shut down.

Important to note however is that many of the gambling laws and regulations enforced are not strictly applied to Evolution as the company is not an online gambling operator but solely a provider of online gambling solutions and services. In many cases the regulations will thus not have a direct impact on the company, but rather an indirect effect as it affects Evolution's customers, resulting in decreased demand and revenue generation. Evolution however notes in its annual report that there are some jurisdictions which are actively enforcing regulations on solution providers such as Evolution and that regulations of this nature are currently under review in several European countries (Evolution, 2022a). It is further specified that several European countries are in the process of or have already introduced regulations which require the operators and in some cases providers to operate from a

country domain, pay national taxes and report on gambling statistics to properly supervise the operators. Such requirements would have financially material impacts on Evolution and the industry as it would entail relocation costs as well as increased resources for the tracking of gambling behavior. Failure to comply with any of the regulations imposed will result in fines as has been seen on several occasions within the industry over the past years. A recent example being the SEK 100m fine charged at the Swedish, publicly listed online casino operator Kindred Group following the discovery that its UK operating subsidiary utilized illegal bonus systems (DN, 2020).

#### 6.1.1.2 Asia

Following Europe, Asia is Evolution's second largest geographical market by far, however the company does not disclose detailed information regarding these operations. Naturally, with Asia holding roughly 60% of the world's population (UNFPA, 2022) it could be expected that the region should account for a large portion of a multi-international corporation's revenue. However, when observing the current online gambling regulatory environment not much point towards the same direction. In a general sense, online gambling and gambling is illegal in many countries in Asia, for example China where the only form of permitted gambling is through state-owned lotteries, Taiwan where it is considered a criminal offense and Japan which historically has prohibited gambling activities, to name a few (Gabidullin, 2021). Legislation has however started brewing in the region following the example of liberalization as displayed in Europe and Latin America (Gabidullin, 2021). Evolution further expresses in their annual report that there are further market opportunities to be captured in Asia without disclosing any specifics, however these prospects likely stem from the fact that the company currently has no established studios in Asia. Establishing local studios and developing Asia-niched games could thus provide substantial growth opportunities. The potential of the Asian market has further been bolstered by the outbreak of COVID-19. According to an e-Conomy Southeast Asia (SEA) 2020 study, close to 40 million inhabitants from Southeast Asia moved to online gambling following the COVID-19 lockdowns, and the market is expected to reach a valuation of USD 50bn by 2026 (SEA, 2020).

#### 6.1.1.3 Latin America

As mentioned in section 6.1.1.2, Latin America is another geographical region which is currently undergoing a liberalization. Although most countries have historically prohibited online gambling

activities, the trend has begun to change as regulatory processes are currently being investigated in Bolivia, Mexico, and Brazil (Stehlik, 2021). Argentina is one of few countries which already has an established regulation framework that is enforced on a state-by-state basis (Stehlik, 2021). In summary, the Latin American market is expected to be an additional funnel for growth in the coming years.

#### 6.1.1.4 North America

Another key geographic which carries substantial growth potential is North America which currently accounts for just north of 10% of Evolution's revenue (Evolution, 2022a). Evolution has a studio located in Canada, where online casinos are permitted if they are either located in the same province in which it operates, or if it is located abroad (Brown, n.d.). However, due to the sheer size of size of the US which has a population of over 300m (Tradingeconomics, 2021a) compared to Canada which has a population of roughly 38 milllion (O'Neill, 2022), management highlights the US as the driving force for future growth within the region, and thus the analysis is emphasized on the US market.

As discussed in the introduction, the US market has for long been considered as the Mecca of gambling and casinos but has been quite slow in the transition from land-based to digital and online gambling environments. There are some similarities when compared to the regulatory landscape of the EU, where gambling within the US is subject to legislation at both the state and federal level (LII, 2021). In a general sense, the broad definition of gambling is subject to the federal laws which are in place, however the states can decide what kind of gambling is to be allowed within the state borders. Currently, a total of eight states have legalized some forms of online gambling, however it primarily involves online sports betting, which falls outside the scope of Evolution (Shirley, 2022). Only four states throughout the US have legalized online casinos, namely New Jersey, Connecticut, Pennsylvania and Michigan whilst both Illinois and Indiana are considering opening for online casinos in 2022 (Shirley, 2021). Evolution currently has established studios in New Jersey, Pennsylvania, and Michigan, and plans on establishing a Connecticut studio in 2022 (Evolution, 2022a).

A market study conducted by Mordor Intelligence (2021) suggests that COVID-19 pandemic may have resulted in an accelerated transition as the lockdowns of physical gambling and casino sites have resulted in many US operators migrating to a digital outlet. The same market study further highlights

Evolution as the leading player in the US market, due to its early entrance and establishment of operations in New Jersey. Should further states follow the initiatives taken by these four states, and if these four states are representative of the online gambling and casino market of the entire US - this opens for exponential growth as the US online gambling market is expected to grow at a CAGR of 17% until 2027 to a corresponding market value of USD 4.8bn (Businesswire, 2022). If the opposite takes place, meaning that no further states legalize online casinos or even the event that further restrictions are enforced on the current legal states, the material effect on Evolution will not be completely devastating as the revenue share accounts for roughly 10%. However, failing for any reason, to break into the US market would likely be highly reflected in the company's share price development as the growth opportunities within this market are immense.

In November of 2021, a US-based law firm accused Evolution of being in violation of US sanctions. Although the accusations have yet not resulted in any fine or been proven to be true, market reactions resulted in a 9% drop - a loss of market capitalization of roughly USD 3bn (Mukherjee, 2021). Actions and events like these, whether they be true or not, are not beneficial for Evolution or the online casino industry since it draws unwanted negative attention to which legislators may respond harshly.

#### 6.1.1.5 Great Britain

Great Britain accounted for approximately 8% of Evolution's total revenue in 2021. The region is generally quite active within gambling where a recent survey conducted by the UK Gambling Commission showed that 43% of all participants had taken part in some type of gambling activity in the past four weeks, a figure which has not returned to the pre-COVID levels (UK Gambling Commission, 2021b). Similarly, to most of the countries in Europe, online gambling and casinos are legal in the region, however an operator must obtain a license to participate. Historically speaking, not much is to be said regarding the UK regulatory state, however, there has long been talk of new and updated regulations primarily targeted at increasing the level of player safety, which could come in place in the spring of 2022. The new regulations could include stake limits, curbs on deposits and audits on the end-gambler's financial position, which will directly impact the larger operator's profitability whilst smaller local actors may be forced to close (Hancock, 2022). Whether such a change would have a similar materialistic impact on Evolution, given their role as a supplier, is uncertain but could likely result in a haircut due to a decrease in variable commissions.

#### 6.1.1.6 Malta

Malta has been considered as the epicenter of the online gambling industry ever since the country established the Maltese Gaming Authority and implemented specific legislation to online, remote gambling in 2004 (Pearce, 2021). The decision has been wildly successful as the sector has grown rapidly within the country and currently accounts for roughly 12% of the country's GDP. As of November 2021, more than 250 international gaming firms were located in Malta, Evolution being one of them (Pearce, 2021). The key benefit of operating from Malta is the favorable tax situation, where the tax rate can go as low as 5% depending on the type of license obtained. The actual legislative tax framework is however somewhat complicated as the statutory corporate tax rate of the country is 35%, however the system allows for substantial refunds. As explained by Centuro Global (2021, para. 7), the global expansion service and consulting provider:

*"Shareholders of companies registered in Malta are entitled to a tax refund upon the distribution of profits. In general, the tax refund amounts to 6/7ths of the tax paid by the company resulting in a maximum effective tax rate of 5% after-tax refunds"*

As Evolution has direct ownership of Evolution Malta Holding Limited, this entails that the company is entitled to the abovementioned tax refund, allowing the company to enjoy a 5% effective tax rate. Other actors within the industry who also have operations in Malta, such as the online operator LeoVegas, show a similar corporate structure which enables for a similar single digit tax rate (LeoVegas, 2022).

As recently as November 2021, a new proposal was lifted wherein the lower bracket of the effective tax rate is set to be tripled up to 15% for companies with revenue of more than EUR 750m which will clearly affect the industry's largest actors such as Evolution (Martin, 2021). Although this will likely not result in many companies actively relocating since such a tax rate is still below most countries in the world (KPMG, 2021a), it will have an impact on the companies' bottom line.

#### 6.1.1.7 Political summary

The political aspect of the online casino and gambling industry is the largest obstacle which active market players must actively work around and acknowledge. Evolution has historically been a

forerunner in many of its current markets and has held a severe competitive advantage in its ability to operate within the casino industry without being directly subject to the regulations. But as the market has evolved, so has the opinion of politicians and the public, leading to regulations in which providers are starting to be either included in the scope or targeted directly. The uncertainty of future regulations should thus be taken into consideration when assessing the growth potential and value of the company.

### 6.1.2 Economical

Perera (2017) highlights some important economic factors that have a substantial impact on a specific company such as interest rates, unemployment rates, currency fluctuations and income levels. Some research papers from the early 2000s indicated that the casino industry was to some extent recession proof, as the gross gaming revenue increased by approximately 3% during the 2001 recession (Legg and Tang, 2011). This finding was primarily related to, and explained by the general customer stickiness, or more crudely put, the addiction that comes with gambling. However, Legg and Tang (2011) further lay forth findings which supported the idea that the casino industry had shown a pattern of being affected by recessions, where the results indicated that the recession during the financial crisis 2008 had a greater impact on the industry revenue compared to the recession of 2001. The discrepancy may be since the casino industry had developed quite substantially throughout the period, becoming more intricately linked with the overall economy and thus making it more susceptible to the economic climate.

The casino and gambling industry's sensitivity to recessions is further strengthened by Olason et al. (2017) who showed that all types of gambling participation with an exception to lottery, decreased in times of recession, and Horvath and Paap (2012) who provided evidence in their study that casino gambling was heavily correlated to economic growth. The findings of these papers could however be argued to be inapplicable to the online gambling industry as the studies primarily involved land-based casinos. The level of accessibility to gambling and casinos at that point in time is not comparable to the accessibility which is prevalent today. Prior to the growth spurt of online casinos, participating in gambling required a physical presence which thus resulted in a related transportation cost and the need to take an active decision to travel to the casino. In the current digital world however, the users are only a few clicks away from gambling online which incurs no additional costs and could be done quite spontaneously. Nonetheless, the findings are important since the ultimate driver of the demand

for Evolution's products and solutions heirs from the end-customer-gamblers. In a simplified manner, a recession could thus impact the industry negatively since the citizens are left with less funds available for leisure activities such as gambling.

A more recent event which could be considered as more indicative of the online gambling industry's recession sensitivity is the outbreak of COVID-19 which brought turmoil to the global economy and the fear of a recession bore a stamp to the world (World Bank, 2020). Countries were forced into lockdown and companies shut down their operations. According to NBER (2008, para. 2), a private economic research organization, a recession is defined as:

*"A significant decline in economic activity spread across the economy, lasting more than a few months, normally visible in real GDP, real income, employment, industrial production, and wholesale-retail sales"*.

The economic climate in many ways resembled that of a recession, or soon-to-be a recession. In accordance with the studies, the global gambling market decreased in value by approximately 24% from 2019 to 2020 whilst the global online casino market grew by 23% in the same period (Evolution, 2021a). This could be interpreted as the online gambling be recession resilient, however the situation is not entirely comparable to the research of prior recessions given the aspect of lockdowns during COVID-19.

Another risk which may arise because of global economic disturbances is regarding currency. Since Evolution operates on a global market, the company is a recipient of multiple foreign currencies resulting in exposure to exchange rate fluctuations. Evolution's accounts are presented in Euro but revenues and costs in relation to specific customer agreements are reported in local currencies (Evolution, 2022a). The group has not expressed any significant impact of historical fluctuations, but still consider it as a potential risk for the future as the company is continuously looking for international expansion. Evolution further states in its annual reports that they do not use any financial instruments to hedge the risk related to currency fluctuations which consequently results in exposure to potential future fluctuations that might have an impact on the cash flow.

Another important factor which affects not only the online gambling industry, but any industry aimed at private individuals is the global GDP per capita, which according to OECD (2013) is a common metric of average living standards or economic wellbeing. As the economic well-being of the population increases, this will likely result in a higher demand for leisure and entertainment products or services. An example of such a development was shown in South America and Brazil who experienced a burst in online activity as a result of increasing living standards and improved IT infrastructure (Dmitriev, 2020).

### 6.1.3 Sociocultural

Perera (2017) discusses the correlation between a company's performance and cultural values. It is therefore important for companies to study the social factors in every country as these have a direct implication of how the market meets its customers (Shatskaya, 2016). As Evolution is a global growing player, it is essential for them to understand the consumer behavior in every specific country, especially when it comes to penetrating new market areas such as Latin America. According to the United Nations (2021), the world population is expected to reach 9.7 billion in 2050. The largest portion of the population, namely 61%, currently resides in Asia (United Nations, 2021). As the population increases paired with an improved well-being, measured by GDP per capita as mentioned under the economic factors, the online gambling consumer base will most likely increase.

Analyzing the recent expansion of the online gambling industry in terms of engagement has become an interesting subject for researchers. This is since online gambling can be considered a socio-cultural and psychological phenomenon as it is integrated in everyday life due to the improved accessibility (Gordon and Reith, 2019). Chang (2008) argues that the greatest dimensions behind online gambling is withdrawal and social difficulties, and further highlights how it can provide an escape from the real world for people who do not socialize. This is further strengthened by Jouhki (2011), who highlights that there is not only an economic reward with online gambling but also a social award. Live casinos allow for people to have a real-life experience with human interaction which adds to the social aspect of gambling online. This may have been one of many reasons why the online gambling industry displayed growth throughout the COVID-19 lockdowns. Another aspect behind the surge of online gambling is the increased number of streamers engaging in various online activities. Streamers can monetize their channels via sponsorship in exchange for playing a specific game. Thus, streaming

sites like Twitch, YouTube and Facebook gaming provides further exposure for online gambling (Woodcock and Johnson, 2019). Further on, Perez (2020) highlights how streamers are promoting online gambling and showcasing their gameplay in exchange for commissions. Streamers and youtubers thus offer a kind of community where people can tune in and receive tips and tricks of gambling. In terms of newly released games, streamers are usually the ones showcasing them at start which allows for their followers to first learn about it before risking their own money (European Business Review, 2021b). The streaming platform Twitch has recently started to take actions against promotion of gambling, as streamers had until August 2021 to remove promotion links to sites offering slots, dice games and casino games on Twitch otherwise they would face sanctions. Twitch also stated that they would continue to monitor the online gambling promotion and take further action if needed (Fletcher, 2021).

Online gambling also brings a severe problem in terms of mental health. Gordon and Reith (2019) discuss how gambling causes mental harm such as stress, anxiety and depression. They further highlight the social implications regarding reduced work productivity, family break ups and financial hardship. In addition to mental health, addiction is a severe problem associated with gambling. The continued growth of the online gambling industry will thus result more people falling into addiction and suffering from mental health issues. Consequently, social problems bring enormous costs for the world economy. A research by Public Health England (2021) estimated the economic burden derived from harmful gambling to be around GBP 1.3bn in 2021.

### 6.1.4 Technological

#### 6.1.4.1 Mobile gambling

Since the break of the 21st century, the gambling industry and the world has seen revolutionary development in technology, the most prominent aspect being the birth of smartphones. The release of iOS and Android smartphones ultimately created the optimal platform for all purposes on which users as of today can watch movies, communicate with friends, organize dates, photograph and upload high-quality images, book journeys etc. In a general sense, the truly revolutionary aspect of smartphones is the level of accessibility which it has provided whilst maintaining a relatively low cost, effectively increasing the total addressable market for all B2C software and application developers. As discussed in the introduction, the global mobile gambling market is expected to

account for 40% of the entire global online gambling market by 2025. The trend of mobile gambling is not a complete novelty but has developed gradually over the years and is likely to continue growing as the number of smartphone users increase. A survey conducted by Statista (2022) showed that there were approximately 6.3bn mobile devices in use at the end of 2021, spread across a population of roughly 7.9b which corresponds to a penetration rate of 80% (World Population Review, 2022). It is further expected that the total number of smartphones will increase to 7.3bn across a population of 8.2bn in 2025, leading to a forecasted penetration rate of 89%.

However, the progress comes at a cost. A study published in the academic journal European Addiction Research suggests that smartphone gambling apps are far more dangerous in terms of addictiveness compared to FOBTs (fixed-odds-betting terminals) (James et al., 2019). The underlying reason for the finding is related to the fact that an average smartphone user will check on / use their phone several times each day which results in them betting or gambling more frequently (Busby, 2019). A survey conducted by Review.org in 2021 showed that the average American aged 18 and older checked their phone 262 times a day on average (Wheelwright, 2021). Several former employees of large technology conglomerates such as Google and Apple have further stated that apps are deliberately designed to be addictive and in accordance with the Fogg Behavior model as established by Stanford's professor B.J. Fogg (Schwär, 2021).

Experts have previously warned that gambling companies use highly sophisticated psychological techniques to draw in the users and establish new behavior. Winning only a small amount on a slot machine for example can put the gambler in a euphoric state, mimicking that of cocaine use which in turn encourages the user to keep playing (Busby, 2019). Some initiatives have however been taken to battle these design methods. One example being the UK Gambling Commission which in 2021 required all online slot operators to slow down the actual spins, remove any "auto-play" options as well as positive music or audio in the event of a loss (known as "loss disguised as a win") and features which caused gamblers to lose track of their expenditure (Davies, 2021).

#### 6.1.4.2 Internet-access and speed

Paired with the development of smart-phones, other important factors which have generated further growth for the online gambling and casino market is the level of internet-access and internet speed around the world. Less than 20% of the world's population had internet access as of 2005, a figure

which has increased to 63% as of 2021 (Johnson, 2021). A well-functioning internet connection is a staple for all online based companies, and the severe increase in accessibility has in turn increased the total addressable market from 1.1 billion individuals to approximately 5 billion (World Population Review, 2022). Cybersecurity Ventures predicts that there will be approximately 6 billion internet users as of 2022 and more than 7.5 billion internet users by 2030 (Morgan, 2019), corresponding to an internet access rate of 75% and 90%, respectively (World Population Review, 2022).

Regarding internet speed, for a player to fully participate in a game of their choosing within the realm of online casino, a solid internet connection with decent speed is a requirement. As most operators simply operate from a website, in many cases the end-users do not have to download a program which clearly conserves device space, but instead it requires that all game data be transferred in real-time, which in turn requires a stronger internet connection (Kangwele, 2021). With the rise of online casino games with live dealers who interact with the players this problem is further emphasized. As the games run live with additional gamblers at the "table", a slow internet connection could hold up the game, causing irritation or discouragement among the players, or could possibly lead to the dealer misplaying the hand as instructed by the player (Kangwele, 2021). Research from Statista (2020) however shows that the average Wi-Fi network connection speeds around the world is estimated to increase consistently from 50 Mbps in 2020 to 91.6 Mbps in 2023. An overall increase in internet speed could not only allow for more end-users participating in the online casino games but also allow for a higher streaming quality which effectively enhances the online gambling experience. The continuous development of 5G networks will likely further accelerate this process, making lag and slow-loading webpages obsolete.

#### 6.1.4.3 Cryptocurrencies

As discussed briefly in the introduction, a crucial invention for the online casino and gambling market was the development of secure, internet-based monetary transactions. The most prominent online casinos currently have payment solutions revolving around credit-, and debit-cards, e-wallets and bank transfers, however a more recent addition to the payment system is that of block-chain enabled cryptocurrencies (Briggs, 2021). The technological development is seen by many as "game-breaking" and allows for a multitude of benefits to the entire industry, however at a potential cost to society. The primary selling-point of blockchain cryptocurrencies is the level of anonymity, as the e-wallet in which the crypto resides is not tied to an identity. However, if one were to exchange their

cryptocurrency to an actual currency, this would cause a paper chain (Dossett, 2022). In theory, a user which keeps all their winnings as a cryptocurrency could thus gamble completely in the dark. The downside is of course the scenario that addictive gamblers could hide their habits from financial institutions and relatives which may not be an optimal situation. A substantial benefit however is the level of speed. When utilizing traditional payment methods such as bank transfers, the transfer period may take several days, especially when the winnings are to be collected from a foreign operator. By using block-chain cryptocurrencies, the payment can instead be fulfilled directly (European Business Review, 2021c). Another benefit is the security aspect, as the actual term "block-chain" refers to a database, or virtual ledger, in which information regarding the cryptocurrency is stored, and is highly difficult to alter or hack, making cryptocurrencies inherently safe due to its disposition (European Business Review, 2021c). Lastly, there is a benefit regarding cost effectiveness, since block-chain cryptocurrencies do not require any middle-men such as financial institutes or banks to facilitate the transaction nor are there any cross-border transaction fees. The fee for a traditional transaction is normally split between the gambler and operator and thus the elimination is beneficial to both parties (European Business Review, 2021c).

#### 6.1.4.4 Virtual Private Networks

A more complicated technological aspect is that of Virtual Private Networks (hereafter VPN). A VPN is a technology which allows the user to encrypt and establish a proxy IP-address different from its actual identity or location (Kaspersky, n.d.). The technology has provided consumers with several benefits, although many of them may be considered in the gray area of the law. One example is the possibility of establishing a proxy IP in the US to gain access to the Netflix USA movie catalogue (Marshall, 2022). In terms of online gambling, this implies that individuals who reside in countries in which online gambling is illegal and / or unavailable can relocate their IP to a country in which the operator is eligible to gamble. The report which came to light in November of 2021 which caused Evolution to drop 9% upon the stock market open, was based on such an accusation in which an investigative firm claimed to have accessed games developed by Evolution in black-listed countries, namely Singapore and Hong Kong, through a VPN (Moraine, 2021). Following the allegation, an Evolution executive stated that the company had the technological resources to detect whether a player was using a VPN, explaining that it was primarily detectable if the country specific IP-address of the player did not match the selected currency of play (Moraine, 2021). Whether true or not, the

claim does pose a clear issue, which increases exponentially when factoring in the potential adoption of cryptocurrencies as a form of payment within the industry. Many gamblers may request or actively seek out operators which accept crypto as payment, forcing the companies to oblige. However, combined with a VPN, tracking the geolocation will be further complicated which increases the risk of legislation violations and hefty fines.

#### 6.1.4.5 Augmented and Virtual Reality

Another technology trend which is present in the world of online gambling is Virtual reality (hereafter VR) (Cristea, 2021). The purpose of VR is to simulate a real-world environment in 360 degrees. Via the most common VR tool, HMD (head-mounted display), users are immersed into the VR world instead of simply observing it through the television (MBN, n.d.). There are several industries and practitioners that can benefit from this technology such as surgeons by simulating mock surgeries (UK Tech, 2020). The technology is still at an early stage, but due to a high level of demand, it is continuously improved. In addition to VR, Augmented Reality (hereafter AR) is a similar technology although more basic than of the VR. The users are not required to obtain any additional software or tools such as the HMD but can rather utilize their smartphones or tablets, making it more accessible to the broad market (SoftwareTestingHelp, 2022). Instead of being in a completely virtual reality, AR modifies your physical environment by adding virtual objects in your (digital) surroundings.

The aspect of AR has recently been implemented in the online gambling industry, as the first platform for AR casinos was established in 2021 (Noles, 2021). By adopting the VR and AR technologies, players are plunged into a virtual casino which enables them to experience real on-site casino experience, adding further to the social aspect of live casinos. Although VR and AR is currently only used to a small extent in the online gambling industry, researchers expect it to increase as it is one of the new technologies that is poised to change the industry (Strange, 2021).

Evolution has already established a foothold within this vertical, as NetEnt already has a demo version of a VR slot machine (Briggs, 2021), however it is crucial to continuously adapt to the everchanging technology, in order to stay ahead of its competition.

### 6.1.5 Environmental

It is evident that during recent years, there has been a greater shift towards the environmental aspect and how businesses impact the environment. The subject has increased in popularity as several researchers have explored the area and the importance of sustainable businesses (Dyllick and Muff, 2016). Widyawati (2019) highlights the importance of a business to shift towards and consider its environmental focus. Not only can an environmental focus result in a business increasing its sustainability but can further lead to reduced costs and help attract new employees (Business Queensland, 2020). However, the most important or pressing manner regarding environmental responsibility is the demand which is being set by investors on publicly listed companies, such as Evolution.

A recent study conducted by Schroders showed that environmental impact is becoming increasingly more important for investors following the pandemic. More precisely, the survey, in which 23,950 participants from 33 different locations globally were questioned, showed that 57% of the responding participants would consider to re-allocating their investments to a completely sustainable portfolio (Gulliver-Needham, 2021). Roughly 60% further stated that an environmental or climate change scandal relating to emissions for example would cause them to withdraw their investment.

Online gambling falls large under the scope of the software industry, which generally not prone to having an immense impact on the environment since the product being sold does not result in severe emissions. However, it is still important for every company regardless of industry to actively defend the environment, and furthermore, there are some indirect forms of emission which should be taken into consideration. Some examples include emissions in relation to the company's vehicles or facilities, office equipment, employee commuting and purchased electricity (Planetly, 2021). This statement is further supported in Evolutions annual report for 2021. Taking an active decision to minimize emission levels thus primarily involves maximizing the efficiency of the company's operational energy consumption, which is something Evolution is actively pursuing. The company has implemented an environmental focus in its everyday business, an example being that all the company's major studios with operations in facilities owned by the company are ISO 50001:2018 certified, as well as having installed smart meters across all its facilities to monitor and adapt energy consumption. In 2021, Evolution further shifted to climate smart premises in terms of environmentally friendly material which in combination with the other initiatives resulted in a

reduction of 4.1% in energy consumption as measured by kwH per table (Evolution, 2022a). As the subject grows in the world, the pressure and expectations of companies do too, making it crucial for Evolution and the industry to meet the expectations and adapt to the ever-changing environment.

### 6.1.6 Legal

As an industry that is characterized by high stakes and big wins, the online gambling and casino industry provides great opportunities for criminals to launder large sums of money through commercial online games, betting and state-operated casinos. A report published by the Swedish Police Authority in March of 2021 openly states that casinos, both land-based but primarily online-based, pose a large risk for money-laundering activities, and further highlights how this is commonly executed (Polisen, 2021). One method is that of pre-determined poker games wherein a handful of people who have collected the proceeds from criminal / illegal activities enter a poker game on an online site with a third party and proceed to intentionally throw the game in the favor of the third person. The individual is then able to collect the poker-winning and transfer to their bank-account as a legitimate source of income (Polisen, 2021). Less complex money laundering methods involve depositing money on your own or others betting / casino accounts without the intention of gambling to either hide the money from authorities or to withdraw the money at a later stage after having played low-risk games with high pay-out ratios to make them seem legitimate. Allowing for criminal activities being conducted through your website is not only unethical but will further result in legal action if discovered. As recently as March 2022, UK-based online operator 888 was fined GBP 9.4m for failing to uphold social responsibility and counteract money laundering (UK Gambling Commission, 2022).

For Evolution however, the situation is quite different, as the money laundering schemes as described above are conducted by the end-gamblers through the operators' websites, i.e., through individuals and monetary flows which Evolution have no direct contact with. Despite this, Evolution has taken a clear stand regarding Anti-Money-Laundering (hereafter AML) and Know-Your-Customer (hereafter KYC) initiatives and has established processes which aim to prevent the company’s products from being used for criminal purposes (Evolution, 2022a). Firstly, the company conducts a thorough due diligence / KYC process on any potential contractual B2B partners to ensure their credibility. Secondly, the company demands that their customers in turn have proper KYC procedures on their customers (the end-gamblers). The general KYC procedure of contractual partners is further repeated

on an annual basis in addition to Evolution having an on-going dialogue with regulatory bodies to improve their process even further (Evolution, 2022a). To ensure that the operators are actively and thoroughly screening their gamblers for possible deviant or irregular behavior or betting patterns, Evolution assists in monitoring all gaming activities conducted, both by manual control systems and automated machine learning-, or artificial intelligence-based systems. Evolution's Game Integrity and Risk department are those who handle these tasks and consist of roughly 50 FTEs. Not only does the risk department scan for irregular behavior among the gamblers but also among the dealers and croupiers to ensure that no organized cheating is occurring. If any discrepancy is detected, Evolution will in turn alert the operators for them to immediately instate preventive measures.

This type of risk-management service does not seem to be charged to the operators, but there are however clear financial benefits for Evolution. Failure to comply or actively take measures against money laundering activities will not only result in a financial fine but could also lead to a tarnished reputational in the eyes of the public and investors. A study from 2019 indicated that corporate reputation accounted for a third of the world's top 15 stock market valuation, and roughly 47% of the valuation of the UK's 100FTSE (Harrington, 2019). Furthermore, a 2019 study conducted by Themis Research on the effects of AML-related failing within banks and financial institutions, showed that the accumulated damage goes far above the actual financial fine since it reflects poorly on the company's overall culture and primarily the senior management teams (Basquill, 2022).

## 6.2 Porters Five Forces

As presented by Porter (2008), the Five Forces is a framework utilized to evaluate an industry's attractiveness, where the industry refers to companies which develop, sell or produce similar products or services. The framework aims to analyze whether the forces within the industry are high or low. A high level would deem the industry unattractive due to competitive rivalry limiting profitability and growth potential, whilst a low level would entail that the industry allows for profitable and scalable business opportunities and is thus attractive. In general, the end-customers of the online gambling industry are defined by having low to non-existing switching costs, whilst the active company's offerings are close to identical. The software-oriented nature of the business and lack of need for physical aspects, further encourages rivalry through product and market expansion.

### 6.2.1 Bargaining power of customers

The product or service characterization is heavily influenced by the demand of the customers (Porter, 2008). This includes prices, quality and customer service but also the power to increase competition among the firms. The substantial amount information available to customers regarding prices, production costs and ratings in addition to easily accessible online marketplaces from external distribution channels has increased the level of bargaining power of customers across several industries (Hitt et al., 2013).

Despite regulations regarding online gambling being imposed in several countries, the accessibility is high due to the advanced technology in addition to most of the population having a smartphone to (Statista, 2022). The buyers in the industry are usually individuals who only gambles as a leisure activity for small amounts. Therefore, losing a specific customer is not devastating for the online casinos and analyzing the financial power of the individuals in relation to the number of players leads to a low buyer power.

According to Hitt et al. (2013), low switching cost is a factor that results in bargaining power of the customers in multiple industries. The switching costs are almost absent since the buyers (players) are not forced to stay within a specific casino and may switch with ease. Players can have accounts at numerous casinos and switch to the one that offers the greatest odds or better conditions such as free spins on slot machines or instant deposits on winnings. Additionally, casinos use bonuses to attract new customers where a player must wager the bonus to withdraw it (MarketLine, 2021) which thus may be considered as a switching cost. Customer loyalty is quite low due to the limited differentiation between online casinos. Most of the online gambling sites offer similar products, namely roulette, blackjack, poker, and sports betting. Players thus tend to use the casino site which offers the best odds when they want to play. As a result, the price sensitivity increases since the gamblers will move to a site where they can identify a higher return. In addition to that, the interface is another factor that affects which online casino a player chooses since a vivid interface will be more appealing, all else being equal (MarketLine, 2021). These factors strengthen the buyer power.

The situation is quite different for Evolution, as the direct customers are the operators. Considering the company's customer dependency as displayed in graph 2, one could argue that at least the largest five customers have a high degree of bargaining power. However, to properly make that conclusion,

one would also need to observe how large a portion of these operators' revenue stem from Evolution's games and solutions as they may in fact be more dependent on Evolution than vice versa. Another aspect to consider is the argument that if the end gamblers prefer games developed by Evolution, the operators will be forced to continue to purchase their solutions, or otherwise the end-gamblers will likely move to a new operator due to their low switching costs. One method which is commonly used to reduce the bargaining power of customers, or rather improving the relationship could be to incorporate loyalty programs (Rolston and Glick, 2021) something which is not mentioned in Evolution's latest annual report.

To summarize, the bargaining power of customers is deemed to be moderate and to minimize this force, Evolution's brand, reputation, and offering must exceed that of the competing casino solution providers.

### 6.2.2 Threat of new entrants

The threat of new entrants refers to the inherent risk in terms of capital, resources or desire a market competitor brings forth to existing inhabitants when entering a new market. Potential actions from previously established and trustworthy actors could be price reductions to maintain their market positions (Porter, 2008). Porter (2008) further elaborates how the level of threat a new actor poses rests on how the existing actors will react and the market's barriers of entry such as capital requirements and cost advantages independent of size. The new competitors may however incentivize the previously established actors to increase their efficiency and to enter the segment which the new entrant brings (Hitt et al., 2013).

From a historical point of view, the barriers of entry of the online gambling market have fluctuated to some degree. With the outbreak of the first instances of online gambling in the late 1990s, companies were able to set up their webpages and offer their products to the consumers directly without having to face the barriers of entry related to physical casinos such as property costs (Graduateway, 2018). Due to the novelty of the market, regulations on the industry had not yet been imposed, which drove many actors into play with the number of online gambling operator websites increasing from 50 to 200 in 1997. However, as discussed throughout the PESTEL analysis, the online gambling market of today is largely different as the level of regulations has increased exponentially. For a new actor to be able to operate legally within Europe, in most cases they would have to apply

for an online gambling license from the relevant national regulatory body. In Sweden, such requirements impose that gaming systems such as back-end software logs must be made available to third-party audits, and furthermore that each deposit or wager placed by a gambler must be traceable in an audit trail (GT Offshore Shield, n.d.).

The industry further has a high level of standard regarding well-functioning, and appealing websites and games, which incurs large development costs (Marketline, 2021). The process of obtaining a legal license in combination with the development needed to attract customers could thus hinder new potential actors from entering the market due to the technical and financial capabilities needed. Regulated markets have further allowed for licensed operators and suppliers to enter the market at an early stage and establish a well-known and trusted brand, which is a highly important aspect in the online gambling industry (Marketline, 2021).

Important to note however, is that absolute dominance is not prevalent within the industry since countries with license regulations such as the EU, generally allow a multitude of actors to partake in the market, and countries which have no regulations clearly does not hinder any actor to enter the market. Furthermore, the opening of markets which have historically banned or held governmental monopolies on online gambling activities pose significant opportunities to new entrants as these have not yet been penetrated by already established actors. An example of such a market is the US where legislation is currently being considered in the states of Illinois and Indiana as mentioned in section 6.1.1.4. Should further states follow, the entire potential of the US market would be unlocked and would likely result in several local actors attempting to establish a position. However, as the price sensitivity within the industry is high as discussed in section 6.2.1, previously established actors do have the possibility to financially muscle out the new entrants by lowering their prices / improving the odds.

For Evolution specifically, the threat of new entrants is even lower, partially due to the company's B2B focused operations which allows for an increased loyalty among customers due to the increased focus on long term partnership agreements.

In summary, the barriers of entry in the online gambling market is primarily driven by the regulatory requirements and end-user product requirements, and poses a moderate level of threat of new entrants.

### 6.2.3 Threat of substitutes

Hitt et al. (2013) refers to the threat of substitutes as the availability of either services or goods from another industry that offers resembling benefits or solutions. Should the substituted product meet demand of the customer, it may influence the entire industry (Wheelen and Hunger, 2012).

Gambling is exposed to the competition regarding customer's leisure time when it comes to gaming, movies and social media. Considering the costs of these competing activities, gambling could be considered as the most expensive since it requires a betting amount compared to the one-time cost of purchasing a movie or video game. Further, it is crucial to analyze what stimuli the players are seeking when engaging into various types of entertainment. People gamble to gain an adrenaline rush, to socialize, escape from anxiety or simply for potential monetary gains (Mental Health Foundation, 2021). A portion of this stimuli could be substituted by video games since it also provides outlets for adrenaline rush, socialization, and a temporary escape from reality (Wilson, 2017). In today's society, all forms of entertainment are easily available which makes the switching costs very low, especially when switching from gambling where you risk losing money to a video game which is only subject to a one-time cost or is free-to-play.

When looking at the online gambling industry, physical casinos could be considered a substitute where the switching costs are low. Usually, the physical casinos offer the same odds and the same product portfolio as the online gambling sites. Gambling at a physical casino is, however, not a cheaper alternative and the ease of gambling online from anywhere weakens the threat. Thereby, considering a physical casino as a substitute may only be applicable in areas where internet access is unreliable or expensive or where a physical casino is easily accessible and does not incur further transportation costs (MarketLine, 2021). Additionally, regulations can favor substitutes if online gambling is forbidden. However, as discussed throughout the PESTEL analysis, several countries are currently investigating the possibility of, or actively in the process of legalizing online gambling. A paper published by Jolley et al. (2006) shows that habitual behavior had a superior effect on player retention for online gambling than customer satisfaction. Gamblers who have developed a habit of online gambling are thus more likely to continue their gambling behavior and are unlikely to substitute gambling with another entertainment activity. The threat of substitutes is thereby assessed low to moderate.

### 6.2.4 Competitive rivalry

Competitive rivalry is a measure of the competitive level between existing firms and the potential effects the action of a firm may have on its competitors (Wheelen and Hunger, 2012). Hitt et al. (2013) discuss how rivalry can accelerate or intensify due to one-sided discoveries and product or service enhancement. This in turn can result in competitive moves which may limit the profitability of the firms such as increased advertising, product differentiation or price reductions. (Porter, 2008) As the number of online operators increased significantly as discussed earlier diversification is needed to attract gamblers to your specific website - and thus a need for casino product development.

The online gambling market is relatively fragmented and consists primarily of larger companies populating the industry (Imarc, 2021). Recently, the industry has experienced some strategic mergers and acquisitions to strengthen the actors' individual positions (MarketLine, 2021). Regarding online operators, the competitive rivalry is severe, as the end-customers loyalty to a specific operator is minimal and the switching costs are next to none-existent. Operators must distinguish themselves from their competition to attract customers, which is normally done through offering more attractive features, as discussed in section 6.2.1**.**

In relation to live casino providers however, customer loyalty could be deemed higher, and switching costs are perceptible, making the operators less likely to swap their provider. To gain an advantage in an existing market or to establish themselves in a new market, M&A activities are a suitable solution (Berk and DeMarzo, 2016). The consistent shower of regulations on the industry will likely result in a continuous consolidation wave, for example by acquiring a competitor which has obtained a license in a certain region. As new market opportunities arise in areas such as Asia, Africa and South America, this could potentially alleviate the rivalry in other regions as some actors may focus their efforts on these emerging markets (MarketLine, 2021). As the industry is currently experiencing substantial growth, which is further expected to continue in the coming years, multiple actors can achieve consistent revenue growth without poaching market shares from their rivals. As the growth diminishes, further initiatives will be needed to expand, which could likely result in further consolidation activities.

To retain their competitive edge, the most crucial aspect for Evolution is likely to proceed with high levels of product development. The company is currently considered as a leader within its relevant

vertical, but as technology evolves such as the implementation of blockchain payments the company will be forced to constantly adapt. Within software development the quality of the end-product is primarily dependent on the skill set and work put in by the employees. As the online gambling industry is in many ways a software-oriented market, this implies that the companies must maintain their talent to keep up with innovation (Taplin, 2021). A clear threat is that of employee poaching, where a report published by Skynova showed that only 14% of the hiring professionals respondents said they had never poached employees (Adams, 2021). The report further states that best ways of retaining personnel include bonuses, raises, employee benefits, promotions, or reduction of the number of work hours, and are thus measures the industry actors must incorporate to minimize the risk of poaching.

Since brand and reputation is an important factor within the industry, the argument could be made that the actors in the industry primarily compete in product quality and reputation rather than prices which is proven to be less devastating for a company's profitability by Porter (2008). The competitive rivalry is deemed to be moderate.

### 6.2.5 Bargaining power of suppliers

Mirroring the bargaining power of customers and refers to the influence that suppliers can apply on their customers by either increasing prices, reducing the availability, or decreasing the quality of their service or product (Porter, 2008). The suppliers are thus able to dictate the level of profitability of the industry and even have influence on the barriers of entry as some firms could be unable to handle the supplier costs (Hitt et al, 2013).

Regarding the online gambling industry, Evolution is in many ways the supplier which has noticeable influence on the operators. As Evolution provides software solutions, there is no substantial tangible input product or material which will have an impact on the company. Its suppliers are rather providers of administrative and management ERP software solutions, which is present in every large company in addition to internet and hosting providers. The pricing of these services are however assumed to be standardized and not variable with industries and is thus not a direct threat to the industry.

Online payment providers, however, are actors who could have a significant impact. The portion of revenue derived from fixed fee for Evolution's products are likely not at risk, however the variable

portion based on the GGR which is characterized as low volumes with high frequency could take a hit if payment providers increase the transaction costs. Safety, as discussed briefly in the PESTEL analysis, is a factor which gamblers seem to take heavily into consideration, which means that well-known and reputable payment providers such as VISA or Mastercard have even further bargaining power. As the online gambling industry is heavily scrutinized for its ethical positioning, some payment providers may eventually withdraw their services completely from the industry. Such an outcome is however rather unlikely as the position would be filled by another actor. In summary, the bargaining power of suppliers is deemed to be low.

# 7. Financial analysis

The purpose of the financial analysis segment is to provide insight into Evolution's historical performance and identify potential trends which in turn will lay the groundwork - in combination with the strategic analysis - for the projected future cash flows when conducting our DCF. First, we will provide an analysis of the company's group income statement, followed by an analysis of several financial ratios which will aid us in dissecting and determining the company's RoE, in addition to analyzing its liquidity risk. The groups consolidated income statement and balance sheet as reported by the company, are available in appendix 3 and 4, respectively.

## 7.1 Income statement analysis

**Table 2: Evolution income statement**

| EUR thousands | FY18 | FY19 | FY20 | FY21 | CAGR |
|---|---|---|---|---|---|
| **Revenue - Live** | **245 418** | **365 752** | **543 315** | **839 238** | |
| Growth (%) | 37,6% | 49,0% | 48,5% | 54,5% | 50,7% |
| **Revenue - RNG** | **-** | **-** | **17 819** | **229 539** | |
| Growth (%) | | | | 1188,2% | 1188,2% |
| | | | | | |
| **Total operating revenue** | **245 418** | **365 752** | **561 134** | **1 068 777** | |
| Growth (%) | 37,6% | 49,0% | 53,4% | 90,5% | 63,3% |
| | | | | | |
| | | | | | Average |
| **Total OPEX (excl. D&A)** | **-137 737** | **-182 804** | **-228 921** | **-334 127** | |
| % of sales | 56,1% | 50,0% | 40,8% | 31,3% | 44,5% |
| | | | | | |
| **EBITDA** | **107 681** | **182 948** | **332 213** | **734 650** | |
| % of sales | 43,9% | 50,0% | 59,2% | 68,7% | 55,5% |
| | | | | | |
| **EBIT** | **89 822** | **157 471** | **299 700** | **653 350** | |
| % of sales | 36,6% | 43,1% | 53,4% | 61,1% | 48,5% |
| | | | | | |
| **EBT** | **89 664** | **157 271** | **298 682** | **646 837** | |
| % of sales | 36,5% | 43,0% | 53,2% | 60,5% | 48,3% |
| | | | | | |
| **Tax** | **-5 866** | **-7 546** | **-14 060** | **-42 056** | |
| % | 6,5% | 4,8% | 4,7% | 6,5% | 5,6% |
| | | | | | |
| **Net income** | **83 798** | **149 725** | **284 622** | **604 781** | |
| % of sales | 34,1% | 40,9% | 50,7% | 56,6% | 45,6% |

*Source: Evolution (2022a; 2020b)*

Compiled by authors

### 7.1.1 Revenue

Up until FY20, Evolution considered the group to only have one operating segment, namely live casino. However, following the acquisition of NetEnt and its slot machine product portfolio, the company has reported on the two segments operating revenues separately, as observed in table 2**.** In FY20, the RNG segment accounted for approximately 3.2% of the total operating revenue, a number which has increased to 21.5% in 2021 - corresponding to a 1,188.2% growth year-on-year. The substantial increase is primarily attributable to NetEnt acquisition of FY20, and Evolution having successfully completed the integration. The reported RNG revenue figure of EUR 17.8m in 2020 is entirely generated by NetEnt (Evolution, 2021a). Similarly, in the 2021 year-end report, Evolution reports that the BTG acquisition resulted in a revenue contribution of EUR 21.8m in FY21. Note that these operations are currently Evolution's sole sources of RNG classified revenue.

Given the circumstances of the segmentation of the revenue sources, the growth figure is inaccurate or rather inconclusive. However, Evolution further reports hypothetical revenue figures if both NetEnt and BTG would have been acquired on the first of January in 2020 and 2021, respectively. In these cases, NetEnt would have generated EUR 202.2m in FY20, and BTG would have generated EUR 40.3m in FY21. From this we can extract more reasonable, albeit hypothetical organic and inorganic growth rates for the RNG segment. The organic growth is calculated by taking the FY21 RNG revenue less BTG's contribution and dividing it with NetEnt's hypothetical full-year revenue in FY20:

**Formula 1: RNG revenue organic growth**

$$\frac{(229{,}539 - 21{,}798)}{202{,}153} - 1 = 2.8\%$$

The inorganic growth is calculated simply by taking the FY21 RNG revenue with NetEnt's hypothetical full-year revenue in FY20:

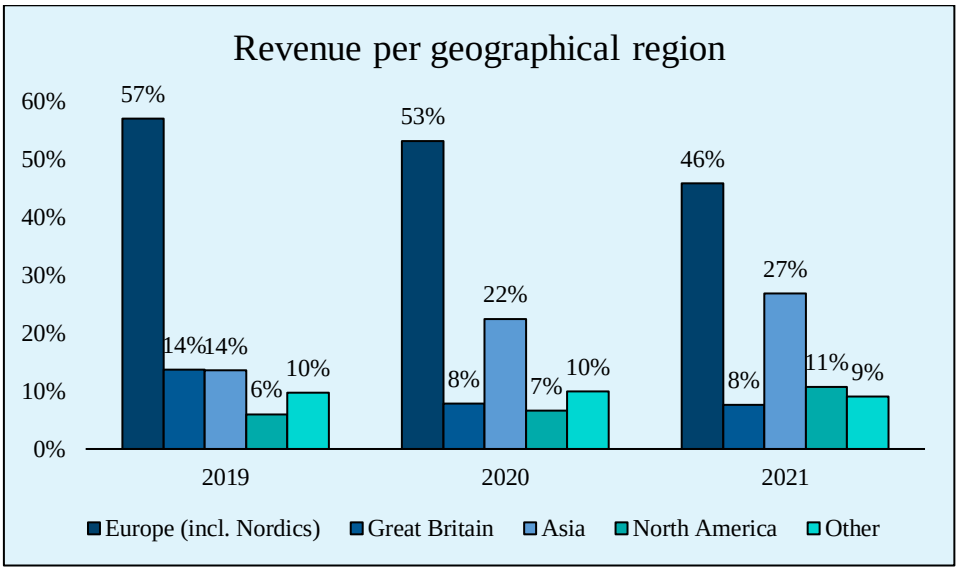
**Formula 2: RNG revenue inorganic growth**

$$\frac{229{,}539}{202{,}153} - 1 = 13.6\%$$

Both figures are clearly significantly smaller than the growth of the Live Casino segment, which displays a compounded annual growth rate of 50.7% for the displayed period. A straight comparison between the two segments is not entirely applicable, as the RNG segment is still at a very early stage and could potentially pick up the pace in the coming years.

On a regional basis, Europe as well as the UK has historically been Evolution's largest markets but has shown a decreasing trend over the last three years. Asia and North America has displayed an upwards trend whilst other regions have remained somewhat stable at around 10.0%. The segmentation is in line with our regional findings and discussions throughout the strategic analysis.

**Graph 4: Evolution geographical revenue development**




*Source: Evolution (2022a; 2021a)*

Compiled by authors

Due to the potential uncertainty of operating in an unregulated market as discussed in section 6.1.1.1, the proportion of revenue attributable to regulated and unregulated markets is further analyzed. The proportion of regulated revenue has been 43.0%, 35.0% and 40.0% for FY19, FY20 and FY21, respectively (Evolution, 2022a; 2021a). Naturally, the higher the proportion of regulated revenue the better, as sudden regulations in a previously unregulated market may force Evolution to either comply with the implied requirements, which may incur increased costs, or cease its operations entirely which would result in revenue loss.

Disregarding the different revenue segmentations, Evolution has proven its capability to generate consistent and significant growth, having displayed a CAGR of 63.3% throughout the observation period.

### 7.1.2 Expenses

#### 7.1.2.1 Cost of goods sold

As for the cost basis, the first thing to notice is the absence of the cost of goods sold (hereafter COGS), which is broadly defined as the direct cost incurred in relation to the production or delivery of any goods or services (Corporate Finance Institute, n.d.). As is the case with many software companies, there is no directly incurred cost of goods sold, as the products developed are intangible and do not require physical materials. A more adapted view on the COGS in the case of software companies, is that it includes third party application costs, hosting and monitoring costs and license fees (Airfocus, n.d.). It could also be argued that labor or personnel costs related to the product development or service offering, should be considered as a direct cost. In theory it could thus be possible to adjust the income statement, wherein the portion of personnel costs which is related to the product development and service should be reclassified as a COGS. However, to do so one would need to have information regarding the personnel cost split, which Evolution is currently not reporting. A further complication regarding this is the fact that Evolution follows IFRS-16 which has implications on the accounting standard for costs in relation to product development. Under IFRS-16, companies are required to capitalize development costs including internal cost, given that certain criteria are met, as described by KPMG (2021b) as:

- The technical feasibility of completing the intangible asset so that it will be available for use or sale
- Its intention to complete the intangible asset and use or sell it
- Its ability to use or sell the intangible asset
- How the intangible asset will generate probable future economic benefits
- The availability of adequate technical, financial and other resources to complete the development and to use or sell the intangible asset
- Its ability to reliably measure the expenditure attributable to the intangible asset during its development

This in turn implies that internally developed intangible assets, such as new game software, should be capitalized, i.e., recognized as an asset on the balance sheet, and then amortized rather than being expensed directly on the income statement, as is the procedure under GAAP (Bogle, 2017). Costs which are attributable to be capitalized, includes among other things, personnel costs incurred in the development if they can be directly attributable to preparing the asset for use, but not any costs incurred following the completion of the software (KPMG, 2021b). The previous discussion regarding adjusting Evolution's income statement to derive a gross profit margin, is thus unachievable or at least irrelevant given the accounting standard of capitalizing development related personnel expenses.

#### 7.1.2.2 Personnel costs

Historically speaking, personnel costs have accounted for the largest portion of all expenses, however throughout the historical period, personnel costs as a percentage of sales has displayed a clear downward trajectory.

**Table 3: Evolution operating expenses**

| EUR thousands | FY18 | FY19 | FY20 | FY21 | Avg. |
|---|---|---|---|---|---|
| **Personnel Expenses** | **-97 674** | **-126 419** | **-133 752** | **-207 165** | |
| % of sales | 39,8% | 34,6% | 23,8% | 19,4% | 29,4% |
| **Other** | **-40 063** | **-56 385** | **-95 169** | **-126 962** | |
| % of sales | 16,3% | 15,4% | 17,0% | 11,9% | 15,1% |
| | | | | | |
| **Total OPEX (excl. D&A)** | **-137 737** | **-182 804** | **-228 921** | **-334 127** | |
| % of sales | 56,1% | 50,0% | 40,8% | 31,3% | 44,5% |

*Source: Evolution (2022a; 2020b)*

Compiled by authors

As the measurement is a fraction, it is thus necessary to analyze whether this is a cause of either a decreasing nominator, or an increasing denominator, i.e., whether Evolution has reduced the personnel costs or if the company's revenue has simply outgrown the cost base due to economies of scale.

**Table 4: Evolution personnel cost development**

| | FY18 | FY19 | FY20 | FY21 |
|---|---|---|---|---|
| Avg. number of FTEs (#) | 3 529 | 4 894 | 5 118 | 7 917 |
| Total personnel cost (k EUR) | 97 674 | 126 419 | 133 752 | 207 165 |
| Avg. cost per FTE (EUR) | 27 678 | 25 831 | 26 134 | 26 167 |
| *Change (%)* | *n/a* | *-6,7%* | *1,2%* | *0,1%* |
| Personnel expense growth | n/a | 29% | 6% | 55% |
| Revenue growth | n/a | 49% | 53% | 90% |

*Source: Evolution (2022a; 2020b)*

Compiled by authors

As can be observed in table 4 the average cost per FTE is relatively unchanged throughout the observation period, with an exception to FY19. The underlying reason for the decrease in FY19 is due to the company increasing its average number of FTEs by approximately 1,350, of which a vast majority of the new employees originated from Georgia (Evolution, 2020b). Georgia has a significantly lower average salary on a national-wide basis, effectively diluting the average cost per FTE (Tradingeconomics, 2021b).

Following FY19 there is little to no change in the personnel costs. When comparing sales to total personnel costs, Evolution's topline is growing at a significantly higher level - indicating that the decline of the personnel costs as a percentage of sales heirs primarily from economies of scale and not from margin expansion through cost-cutting.

#### 7.1.2.3 Other costs

The remaining cost is other costs, which in a general sense refers to expenses that are non-operative and do not fall under the scope of other accounts. Examples for other costs are rent, insurance or advertisement (Thakur, n.d.). In the case of Evolution, the company does not specify precisely what is defined as other costs with an exception to auditor's remuneration and leasing-costs. The leasing costs are however also subject to scrutiny, as similar to that of the capitalized development costs, it is affected by the IFRS-16 framework. The framework requires lessees to recognize close to all leases as a right to use assets on the balance sheet as well as the associated liability for lease-payments (PwC, 2016). There is however an exception for short-term and low value assets, in which case the lease payments should be recognized as a cost rather than a depreciation or amortization of the right to use assets.

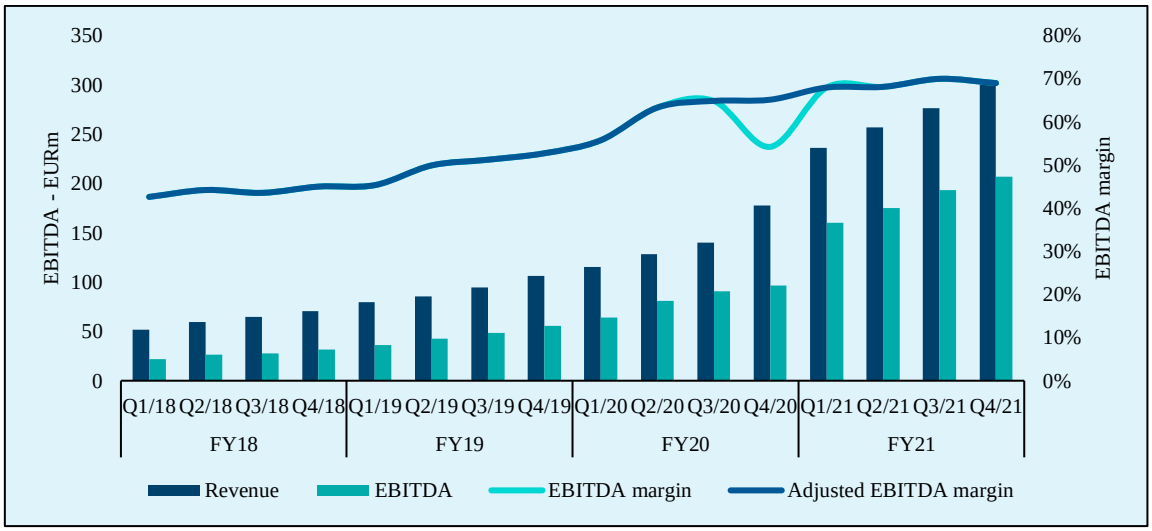
For Evolution, the right to use assets includes premises, offices, vehicles, and equipment (Evolution, 2022a). Nonetheless, expenses for short-term and low value assets are negligible for Evolution, and amounted to EUR 113k in 2021, whilst auditor's remuneration amounted to EUR 765k. As trial accounts are unavailable, defining which other costs are included is not possible. However, when taking the absence of COGS into account, it is reasonable to assume that costs such as third-party applications, license fees, hosting and other IT costs etc. are included, as they are not attributable to the cost of development, and at the same time are non-operative.

In contrast to personnel costs, other costs do not display a clear trend, but have remained somewhat stable at an average of 15.1% of sales throughout the observation period.

### 7.1.3 EBITDA

Another essential attribute of Evolution is the company's high level of operating profitability. Throughout the observation period, the company has displayed a steady upwards trend in the EBITDA margin with an exception to Q4 in FY20, as displayed in graph 5**.** The sudden margin downturn is not described in detail by Evolution other than it was due to non-recurring items which affects comparability. Due to these types of circumstances, the company further reports an adjusted EBITDA, which excludes said non-recurring items. However, given the timing of the downturn, the decrease was most likely related to the completion costs of the NetEnt acquisition in December 2020. Still, in FY21 the company regained its momentum and reached an EBITDA margin of 68.7% for the year. The figure is impressive, but even more so when comparing to industry peers. For instance, the global average EBITDA margin as of Q4 2021 for the Software & Programming industry and the Gambling & Casinos industry stood at 26.2% and 23.4% respectively (CSIMarket, 2021a; 2021b). The comparison should however not be taken at face value, as the industrial average includes peers that follow GAAP, meaning that their R&D costs are expensed, which thus lowers the EBITDA whilst Evolution follows the IFRS framework, resulting in the EBITDA being completely unaffected by any R&D.

**Graph 5: Evolution EBITDA development**




*Source: Evolution (2022b; 2021c; 2020c; 2019b)*

Compiled by authors

### 7.1.4 Depreciation and amortization

Evolution's depreciation and amortization (hereafter D&A) as a percentage of sales is essentially the sole metric which has remained close to stagnant throughout the observation period, at an average of 6.9%.

**Table 5: Evolution D&A**

| EUR thousands | FY18 | FY19 | FY20 | FY21 | Avg. |
|---|---|---|---|---|---|
| **Depreciation** | **-7 581** | **-13 624** | **-17 206** | **-26 506** | |
| % of sales | 3,1% | 3,7% | 3,1% | 2,5% | 3,1% |
| **Amortization** | **-10 278** | **-11 853** | **-15 307** | **-54 794** | |
| % of sales | 4,2% | 3,2% | 2,7% | 5,1% | 3,8% |

*Source: Evolution (2022a; 2020b)*

Compiled by authors

The previous discussions regarding the IFRS-16 framework clearly have an impact on this as well since it is at this point that the expenses of product development and some leases are realized. Costs for computer software development and the development of their core gaming platform which are recognized as assets are amortized over an estimated useful life of three years, whilst licenses recognized as assets are amortized over five years (Evolution, 2022a). The effects of development costs are thus somewhat lagged as an investment made today will have an impact on the D&A in the

coming years, compared to if the development costs were expensed in which case it would only affect said year. This in turn could lead to significant volatility in a company's profitability. As development costs of this nature are intuitively considered to be long term investment which will generate revenue and cash flows in the coming years, it is thus reasonable that the expense should also be realized in the coming years, i.e., amortized (Petersen et al., 2017).

Regarding depreciation, Evolution specifies that tangible assets are depreciated on a straight-line basis at an annual rate of 20-50% for office equipment, offices, and technical equipment, whilst property is depreciated at an annual rate of 2%. Evolution further specifies in its annual report that leases which are recognized as right-of-use assets are also depreciated on a straight-line basis depending on the useful life of the asset (Evolution, 2022a). The key assets which have accounted for most of the total D&A are amortization of gaming programmed, which refers to the discussed capitalized development, and depreciation of computers, offices and technical equipment. Further discussion regarding Evolution's depreciation and amortization scheme is conducted in section 9.1.4.5**.**

### 7.1.5 EBIT

As EBIT is solely a result of a company's EBITDA less D&A, not much is to be said for the metric. As the EBITDA margin of Evolution has improved steadily whilst the D&A has remained at a stable level of c.6.9% throughout the observation period, the EBIT development is similar that of the EBITDA and reached 61.1% in 2021.

**Table 6: Evolution EBIT**

| EUR thousands | FY18 | FY19 | FY20 | FY21 | Avg. |
|---|---|---|---|---|---|
| **EBIT** | **89 822** | **157 471** | **299 700** | **653 350** | |
| % of sales | 36,6% | 43,1% | 53,4% | 61,1% | 48,5% |
| **Interest income** | **13** | **45** | **47** | **1 317** | |
| % of sales | 0,0% | 0,0% | 0,0% | 0,1% | 0,0% |
| **Interest expense** | **-171** | **-245** | **-1 065** | **-7 830** | |
| % of sales | 0,1% | 0,1% | 0,2% | 0,7% | 0,3% |
| **EBT** | **89 664** | **157 271** | **298 682** | **646 837** | |
| % of sales | 36,5% | 43,0% | 53,2% | 60,5% | 48,3% |

*Source: Evolution (2022a; 2020b)*

Compiled by authors

### 7.1.6 EBT

The bridge from EBIT to EBT is essentially non-existing and thus the increasing EBT margin is simply a result of the increasing EBIT. The minor difference in the KPIs is further specified by Evolution to be primarily attributable to interest expenses on lease liabilities which is clearly a reflection of Evolution's capital structure having had little to no debt. In many ways, this is a signal of strength as the company has been able to finance its operations primarily through equity. It further provides an opportunity for the company going forward to tap into the debt markets given the company's solid financial profitability and low-levered financial structure.

### 7.1.7 Net income

The bridge between EBT and net income is also next to non-existing, which at first observation may seem irrational since the corporate tax rate in Sweden currently stands at 20.6% (PwC, 2022).

**Table 7: Evolution Net Income**

| EUR thousands | FY18 | FY19 | FY20 | FY21 | Avg. |
|---|---|---|---|---|---|
| **Tax** | **-5 866** | **-7 546** | **-14 060** | **-42 056** | |
| % | 6,5% | 4,8% | 4,7% | 6,5% | 5,6% |
| **Net income** | **83 798** | **149 725** | **284 622** | **604 781** | |
| % of sales | 34,1% | 40,9% | 50,7% | 56,6% | 45,6% |

*Source: Evolution (2022a; 2020b)*

Compiled by authors

As can be seen in table 7, the effective tax-rate applied by Evolution is in the mid-single digits. The explanation provided by the company is that the effective tax rates applied are based on the company's interpretation of the current laws, treaties and regulations instituted in said countries. As discussed in the strategic analysis, the low effective tax rate stems from the company's operations in Malta and the current taxation system which allows the company to decrease its effective tax rate significantly (LawyersMalta, 2020). A similar comment is provided by Evolution in its annual report, albeit phrased differently.

## 7.2 Profitability analysis

RoE is a critical KPI to observe as it serves as a financial gauge of how financial leverage impacts a company's profitability as well as it gives an indication of how efficiently the profit is generated. Additionally, RoE serves as a measurement of the ratio between a company's profitability, usually net income, and its total equity and thus, shows how well a company is using the capital gained from shareholders (Petersen et al., 2017).

It is possible to simply extract a company's RoE from reliable financial databases such as S&P Capital IQ, Bloomberg or Yahoo Finance. A common way of calculating the RoE is shown in formula 3.

**Formula 3: Return on equity**

$$Net\ profit\ /\ Shareholder's\ equity$$

*Source: Petersen et al., (2017)*

However, in this thesis, the formula and approach of Ross et al. (2019) is applied, who instead utilizes the Dupont model to derive a company's RoE. The Dupont model will eventually result in the same RoE as formula 3 but allows for further understanding and analysis of the different factors which have an underlying impact on the RoE, which are:

- Operating efficiency (net profit margin)
- Asset use efficiency (asset turnover ratio)
- Financial leverage (equity multiplier)

The derived formula from the Dupont framework which is shown in formula 4.

**Formula 4: Return on equity**

$$ROE\ =\ Net\ profit\ margin\ *\ Asset\ turnover\ ratio\ *\ Equity\ multiplier$$

Each input is analyzed and compared to a select group of industry peers consisting of iGaming actors but also to peers within industries that possess similar operational characteristics to Evolution, namely B2B software and video games. The selected industries for comparison are based on two criteria. First, we select actors who are active within the online gambling industry either as operators,

affiliates, or suppliers, and are thus the closest peer group to Evolution (iGaming). Secondly, we broaden our scope to also include industries that possess similar characteristics to the operations which Evolution conducts. As Evolution is a B2B software provider with its headquarters in the Nordics, we include Nordic B2B software providers with similar financial characteristics. As discovered in section 6.2.3, video gaming does have many similarities to online gambling both in the aspect which stimuli it releases for the end-user but also in the structure of the industry. The video gaming industry consists of video game developers and distributors where the former develops the games and the latter distributes them, i.e., brings them to market, an example being the digital video game distribution service Steam. This is similar to the operations of Evolution as a developer of games which are then accessed by the end-users through the operators. The video game industry further showed significant growth during the pandemic due to the social limitations related to the COVID-19 lockdowns, where Steam had an increase in users by more than 20% (Şener et al., 2021). This development is similar to the findings regarding COVID-19's implications on the online gambling market as discussed in section 4.2 and the social aspects of online gambling as discussed in section 6.1.3. The basis for our calculations of the ratios is presented in appendix 5-9.

### 7.2.1 Operating efficiency

To measure Evolution's operating efficiency, the net profit margin is used, which is calculated by dividing the net profit by the total revenue for each financial year. The net profit margin is one of the simplest profitability metrics and quickly provides an indication of how big a portion of the revenue will be translated into pure profits after deducting for all costs as well as taxes (Berk and DeMarzo, 2016). Evolution's historical net profit margin is being displayed in table 8.

**Table 8: Operating efficiency development**

| Operating efficiency | FY18 | FY19 | FY20 | FY21 | Average | Median |
|---|---|---|---|---|---|---|
| Net profit margin Evolution | 34,0% | 40,9% | 50,7% | 56,6% | 45,6% | 45,8% |
| Net profit margin iGaming | 10,3% | 5,6% | 7,0% | 12,0% | 8,7% | 8,7% |
| Net profit margin B2B software | 7,5% | 3,6% | 10,5% | 4,3% | 6,5% | 5,9% |
| Net profit margin video games | 11,7% | 12,9% | 15,2% | 13,1% | 13,2% | 13,0% |

*Source: S&P Capital IQ*

Compiled by authors

Evolution's net profit margin is clearly above the industry average and has displayed a strong increasing trend. The high net profit margin can be explained by the high EBIT margin which in turn is primarily a result of low operating expenses as discussed in section 7.1.2**,** followed by insignificant financial expenses and a single digit effective tax rate.

### 7.2.2 Asset Use Efficiency

The asset use efficiency will be measured by looking at the asset turnover ratio which is calculated by taking Evolution's total revenue divided by its total assets. The ratio gives an indication of how efficiently Evolution's assets are being used to generate revenue (Berk and DeMarzo, 2016). Generally, a high asset turnover ratio is desirable since it displays efficient asset usage. However, since the ratio varies a lot between different industries, it is vital that the ratio of the target company is only compared to relevant peers.

**Table 9: Asset use efficiency development**

| Asset use efficiency | FY18 | FY19 | FY20 | FY21 | Average | Median |
|---|---|---|---|---|---|---|
| ATO Evolution | 1,02 | 0,84 | 0,18 | 0,27 | 0,58 | 0,56 |
| ATO iGaming | 0,62 | 0,67 | 0,60 | 0,64 | 0,63 | 0,63 |
| ATO B2B software | 0,78 | 0,70 | 0,54 | 0,44 | 0,61 | 0,62 |
| ATO video games | 0,66 | 0,63 | 0,57 | 0,50 | 0,59 | 0,60 |

*Source: S&P Capital IQ*

Compiled by authors

Evolution displays a quite fluctuating ratio which is relatively hard to interpret due to major swifts. Prior to FY20, Evolution proved to be more efficient than all its selected peers by maintaining a relatively smaller asset base. The reason behind the large decline from FY19 to FY20 can be explained by a large portion of goodwill being added to Evolution's total assets which is attributable to the acquisition of NetEnt in FY20. An increase in the asset turnover ratio is identified from FY20 to FY21 despite the BTG acquisition which resulted in further goodwill additions to Evolution's total assets. The seemingly contradicting result is explained by the lower percentage increase in total assets compared to the revenue growth. In total, goodwill accounts for more than 50% of the total assets as of FY21. The asset turnover ratio will thus most likely further increase should Evolution halt their acquisition agenda.

### 7.2.3 Financial leverage

Evolution's financial leverage is analyzed by deriving its equity multiplier which is calculated by taking total assets divided by shareholder's equity. The multiplier generated from the formula displays the value of assets per every EUR of shareholder's equity. A higher equity multiplier indicates a larger portion of debt and vice versa (Berk and DeMarzo, 2016).

**Table 10: Financial leverage development**

| Financial leverage | FY18 | FY19 | FY20 | FY21 | Average | Median |
|---|---|---|---|---|---|---|
| Equity multiplier Evolution | 1,48 | 1,55 | 1,16 | 1,22 | 1,35 | 1,35 |
| Equity multiplier iGaming | 2,41 | 2,75 | 2,70 | 2,67 | 2,63 | 2,69 |
| Equity multiplier B2B software | 2,18 | 2,37 | 2,12 | 1,79 | 2,12 | 2,15 |
| Equity multiplier video games | 1,88 | 1,78 | 1,76 | 1,73 | 1,79 | 1,77 |

*Source: S&P Capital IQ*

Compiled by authors

As can be displayed in table 10, Evolution's equity multiplier is lower than all selected peer groups which indicates a lower portion of debt in relation to total assets compared to the industry. An equity multiplier of 2 corresponds to half of the company's assets being financed by debt. The significant drop from FY19 to FY20 can once again be explained by the acquisition of NetEnt. The acquisition brought a substantial level of goodwill to the company which directly increased the total assets. However, it also resulted in a significant increase in the book value of equity from EUR 280m in

FY19 to EUR 2,700m in FY20. The driver behind the surge in equity is related to contributed capital on the balance sheet of Evolution. Contributed capital, also known as paid-in capital, refers to the total value of cash and/or assets that shareholders provide to a company in exchange for the company's shares (Berk and DeMarzo, 2016). In this case, the significant increase in contributed capital is since a portion of the transaction was paid for in newly issued shares in Evolution, as mentioned in section 5.6.

### 7.2.4 Return on equity

**Table 11: Return on equity development**

| Return on Equity | FY18 | FY19 | FY20 | FY21 | Average | Median |
|---|---|---|---|---|---|---|
| RoE Evolution | 51,4% | 53,3% | 10,4% | 19,0% | 33,5% | 35,2% |
| RoE iGaming | 15,3% | 10,3% | 11,4% | 20,6% | 14,4% | 13,4% |
| RoE B2B software | 12,78% | 5,99% | 11,93% | 3,4% | 8,5% | 9,0% |
| RoE video games | 14,60% | 14,52% | 15,20% | 11,4% | 13,9% | 14,6% |

*Source: S&P Capital IQ*

Compiled by authors

By inserting the derived ratios into formula 3**,** the RoE for Evolution and its industrial peers are presented in table 11**.** First thing to note is that due to the spread of Evolution's RoE throughout the historical period, observing the average and median is not very insightful as the measurement has been skewed by the significantly higher ratios prior to the acquisitions. When observing FY18 and FY19, Evolution beats the industry average massively, primarily driven by its net profit margin which is more than double to its peers in this period. In FY20, the RoE takes a substantial hit and even descends to a level below all the peers despite an increase in net profit margin, which as discussed is a result of the acquisitions of NetEnt and BTG. In FY21 the RoE has recovered quite significantly and is only beat by the iGaming peers by a small margin. Under the assumption that Evolution's revenue will continue to outgrow its total assets, Evolution will likely outperform its peers in the near future, however if further share-based and large acquisitions are completed, this will further deteriorate the RoE. The RoE measurement can further be compared to a company's cost of equity, as the relationship between the two can illustrate whether the company is creating value or destroying value (Petersen et al., 2017).

## 7.3 Liquidity risk

A common procedure when financially analyzing a company is to observe its' long-term liquidity risk. This is often done by taking the net interest-bearing liabilities divided by the book value of equity. The higher the ratio is, the greater a company's financial leverage and the more risk the company's capital structure implies (Petersen et al., 2017). Evolution has no bonds outstanding and has negligible amounts of interest-bearing liabilities on its balance sheet, more precisely EUR 67.8m as of December 31, 2021 which exclusively refer to interest-bearing lease liabilities (Evolution, 2022a). It further has a cash-position equal to EUR 421.4m, leading to a net-debt position of EUR -353.6m (net-cash EUR 353.6m). The company can thus cover its long-term liabilities with its current cash-position, implying no long-term liquidity risk. However, the company notes that its lease liabilities are primarily related to offices and premises, which in our view is purely operational and thus they will not be considered as debt financing.

In addition to a company's long term liquidity risk, it is essential to analyze its short-term liquidity risk as well. The current ratio will be used as the metric and is calculated by taking current assets, divided by current liabilities. It illustrates whether a liquidation of a company's current assets would yield enough proceeds to cover its current liabilities without any further financing. (Petersen et al., 201). A general rule of thumb is that a ratio of 2.0 or more is considered as being healthy. However, the current ratio does vary a lot between different industries and the threshold ratio should only be considered as a guideline (Kaldestad and Møller, 2016). Hence, the ratio should be analyzed in conjunction with its respective peers for a more accurate conclusion.

**Table 12: Short-term liquidity risk development**

| Short-term liquidity risk | FY18 | FY19 | FY20 | FY21 | Average | Median |
|---|---|---|---|---|---|---|
| Current ratio Evolution | 2,43 | 2,37 | 1,34 | 2,10 | 2,06 | 2,23 |
| Current ratio iGaming | 1,24 | 1,22 | 1,98 | 1,36 | 1,45 | 1,30 |
| Current ratio B2B software | 1,31 | 1,18 | 1,60 | 1,78 | 1,47 | 1,46 |
| Current ratio video games | 1,71 | 2,00 | 1,94 | 2,54 | 2,05 | 1,97 |

*Source: S&P Capital IQ*

Compiled by authors

As displayed in table 12, Evolution's current ratio has been relatively stable and beaten its peers in addition to exceeding the rule of thumb threshold, with an exception for FY20 when it displayed the lowest ratio among all peer groups. The decline is related to the NetEnt acquisition, namely a financial liability labeled as "debt compulsory redemption shares NetEnt" which is further discussed in section 9.1.4.9 (Evolution, 2021a). The ratio however recovered significantly in 2021, once again exceeding the threshold. Nonetheless, it is reasonable to conclude that Evolution does not have any short-term liquidity risk.

## 7.4 Conclusion financial analysis

To summarize, Evolution has displayed immense growth historically paired with a high level of profitability, especially since the COVID-19 outbreak. Whilst live casino has faced the largest growth, Evolution has completed two strategic acquisitions of NetEnt and BTG which added RNG to their product portfolio. The main drivers for the growth originate from Asia and North America. Additionally, Evolution has maintained a healthy decline of its costs resulting in an increased profitability due to economies of scale, which is reflected in the company's EBITDA and EBIT margins. The limited interest expenses and the current tax situation in Malta further allows the company to obtain substantial net profit margins.

Looking at the profitability gauges derived from the Dupont method, Evolution's RoE has fluctuated to some degree but is still at a healthy level and is able to convert the capital received from shareholders into profit. Overall, from the financial analysis, the assessment is that Evolution is currently in a strong financial position with a sound base for the future.

Although having little to no interest-bearing liabilities is in many cases considered as desirable due to the low liquidity risk, it can result in a higher total cost of capital. As explained by Berk and DeMarzo (2016) raising debt will effectively reduce the cost of capital as debt is cheaper than equity. This is since debtholders are prioritized in the event of liquidation, which thus entitles less risk and correspondingly a lower return for the debtholders. An increased leverage ratio will also allow for higher exploitation of the tax advantages of debt. However, as the debt ratio increases, the equity holders will generally demand a higher rate of return since their claim on the company's value has decreased. To minimize the cost of capital, one should thus have a sensible mix of equity and debt financing (Berk and DeMarzo, 2016).

# 8. SWOT analysis

To conclude and compile our findings from the strategic analysis and financial analysis, a SWOT-analysis is conducted. A SWOT analysis is a tool used to ameliorate the overview of the company in terms of identifying its strengths (S), weaknesses (W), opportunities (O) and Threats (T) (Whittington et al., 2019). The findings, which are presented in figure 4, are further considered in the valuation.

**Figure 4: SWOT analysis**


Compiled by authors

# 9. Valuation

The primary valuation method used to derive the fair and intrinsic value as well as the implied share price of Evolution, is the DCF, which is based on the premise that a company's valuation should be equal to the present value of all future cash flows. The forecasting assumptions are based on the company's historical performance, current financial and strategic position as well as its prospects, which collectively form the basis for the projected future cash flows. There are several advantages to utilizing a DCF model when conducting a company valuation, such as it allows for the creator to incorporate heavily detailed scenarios, future expectations, and assumptions regarding the business, to name a few (CFI, 2021b). As with any model, the pros are however somewhat interlinked with the disadvantages, namely regarding how the model is predominantly built on assumptions made by the constructor. The outcome is thus highly dependent on assumptions, where the value expectation could swing substantially as a result of changes in these assumptions and could further result in an irrational valuation due to bias (Damodoran, 2012). To account for potentially unrealistic and / or biased assumptions, a sensitivity analysis is conducted on a handful of input parameters to clearly observe how these assumptions skew the valuation. Furthermore, a scenario analysis in which the forecasting period is adjusted for more extreme scenarios will be included. Lastly, a relative valuation approach is conducted using listed peers and precedent transactions to complement the findings of the DCF.

The listed peer's or comparable approach is a valuation method in which the analyst observes how similar companies are trading on the stock market. This comparison is more practically performed by collecting listed peers trading multiples as measured by EV/Sales, EV/EBITDA or EV/EBIT and applying the average or median multiple on the target company's financial base to derive its enterprise value. A company which trades at a lower multiple than its peers could thus be argued to be undervalued, however the lower multiple could also be due to worse financial performance in terms of profitability or worse prospects in terms of expected growth rate (Damodaran, 2006). To account for these potential discrepancies between companies which on an operational level is quite similar, a linear regression is constructed on the listed peers' implied trading multiples dependent on the individual company's growth and margins. From this, it is then possible to extract an indicative valuation of the target company based on the linear relationship as shown in the peer group regression.

The precedent transaction method implies that the price paid for similar companies in the past as measured by multiples should be considered as an indication for what the target company is valued

at today (Rosenbaum and Pearl, 2020). Although the method is rather straight-forward, it does carry some difficulty since one must consider not only the operational and financial similarity between the previously acquired companies and the target company, but also the market climate that was present at the time of the acquisition compared to its current shape and form (Rosenbaum and Pearl, 2020).

## 9.1 Discounted cash flow model

To derive the implied equity value and share price of Evolution, a two-stage DCF approach as described by Petersen et al. (2017) is applied.

**Formula 4: Discounted cash flow model**

$$DCF = \frac{FCF_1}{(1+r)^{(1-0.5)}} + \frac{FCF_2}{(1+r)^{(2-0.5)}} + \cdots + \frac{FCF_n}{(1+r)^{(n-0.5)}} + \frac{FCF_n * (1+g)}{(r-g)} * \frac{1}{(1+r)^{(n-0.5)}}$$

The first portion of the formula captures the present value of the projected cash flows throughout the selected projection period (FY22-FY26). The second portion aims to capture the terminal value of the business, i.e., the present value of all future cash flows generated after the selected projection period. This is in line with the assumption that the company will not cease to exist at this point but rather continue its operations indefinitely. This is referred to as the Gordon Growth method (Petersen et al., 2017). First, the relevant discount rates, namely the Weighted Average Cost of Capital (hereafter WACC), denoted as *r* in the formula, and the terminal growth rate, denoted as $g$ in the formula must be derived. As we assume that the cashflows generated by the company arrive continuously through the years, we apply the mid-year convention, which is an applicable approximation of continuous discounting, according Berk and DeMarzo (2016). The projected cash flows and the underlying assumptions and analysis is presented in section 9.1.4.

### 9.1.1 Terminal growth rate

Damodoran (2012) states that no company can effectively outperform the global economy in perpetuity, since this would theoretically imply that the company in question would eventually outgrow the world economy. More practically, this statement implies that Evolution and the online gambling industry as whole will eventually converge towards the growth rate of the global economy, as measured by real GDP growth to account for inflation. According to OECD (2021), the CAGR of the global GDP is estimated at 2% up until 2060 and could potentially reach 3% when increasing the

forecast period to 2070. Based on this, the assumed growth rate is 2.5%, namely the midpoint of the estimates.

### 9.1.2 WACC

The WACC reflects the average cost of capital across all sources of financing. The measurement is widely used as a benchmark to determine a rate of return that all stakeholders, namely shareholders and debtholders, require to provide financing to the company through investments. For example, a stock which has a high-risk profile due to its operational focus or leverage ratio will result in higher cost of capital for both equity and debt. The formula applied is the one presented by Berk and DeMarzo (2016).

**Formula 5: Weighted average cost of capital**

$$WACC = R_e * \frac{E}{E+D} + R_d * \frac{D}{E+D} * (1-t)$$

#### 9.1.2.1 Capital structure

The first aspect of the WACC calculation is to derive the capital structure of the target company, namely the proportion of equity and debt which the company holds, which is represented as a percentage or fraction of the total value of these assets. As the ratios are intended to represent the actual and current capital structure of the company, the calculations should be based on the market value of equity and debt rather than the book value (Petersen et al., 2017). In the case of Evolution however, the company does not have any outstanding bonds or other debt instruments in the market, and further reports no financing-related interest-bearing liabilities in its annual report of 2021 (Evolution, 2022a). The only debt-related post present on Evolution's balance sheet consists exclusively of lease-liabilities, which is not a good proxy for the debt due to its operational nature. Due to these facts, the proportion of debt is set to zero whilst equity has a ratio of 1.

One large assumption that is made when deriving the capital structure to be applied in the DCF model is that the capital structure will remain unchanged throughout the entirety of the forecast and terminal period. The capital structure could change overtime, meaning that such an assumption should not be taken at face value. Evolution does however not disclose any further information regarding a target capital structure and has historically not raised any debt. Damodaran (2021a) further reports that the average debt-to-equity ratio within the software entertainment industry, which comprises online

gambling, is equal to 2.05% meaning it is a common trend to be primarily equity financed. It is thus reasonable to assume that the company will stick to its current capital structure.

#### 9.1.2.2 Cost of debt

The cost of debt is essentially the effective rate a firm pays on its outstanding debt such as loans or bonds. To derive the company's cost of debt, one can consider the total value of interest payments in relation to the total value of interest-bearing liabilities to derive an average cost of debt (Berk and DeMarzo, 2016). Two additional approaches estimating the cost of debt involves observing at the Yield to Maturity (YTM) of the company's outstanding bonds. The other way of deriving the cost of debt is to observe the credit rating of the firm which can be retrieved from credit rating agencies such as Moody's, Fitch, S&P Capital IQ and Morningstar. The credit rating can then be used to derive the yield spread over government issued bonds. Adding the risk-free rate on the spread results in the cost of debt (CFI, 2021c).

However, as mentioned in section 7.3, Evolution does not have any outstanding bonds nor financing-related interest-bearing debt. Hence, the cost of debt for Evolution is set to 0 and not considered in the WACC.

#### 9.1.2.3 Cost of equity

The cost of equity, which is generally defined as the shareholders required rate of return, is derived using the Capital Asset Pricing Model (hereafter CAPM) as presented in formula 6 (Berk and DeMarzo, 2016). Although Damodaran (2012) argues that the formula does have it its limitations in terms of assumptions, we do not dissect the model as this is outside the scope of the report.

**Formula 6: Cost of equity**

$$R_e = R_f + \beta_e(R_m - R_f)$$

##### 9.1.2.3.1 Risk free rate

The risk-free rate incorporated in the CAPM formula relates to the risk-free rate at which investors can either borrow or sell (Berk and DeMarzo, 2016). In general, the risk-free rate is derived from a country specific 10-year government bond (Petersen et al., 2017). Since the forecast period is five

years, one could argue that a 5-year government bond is suitable, however as the valuation is based on perpetuity cash flows, the longest available bond is selected. According to Berk and DeMarzo (2016), government bonds are free from default risk but unless the maturity date matches the investment horizon, there will be an interest rate risk associated with the government bond. Since Evolution is headquartered and domiciled in Sweden, the 10-year Swedish government bond is used, which according to the Swedish Riksbank (n.d.) was 0.2347% as of 30 December 2021.

#### 9.1.2.3.2 Beta

In the CAPM formula, the beta value represents the systematic risk, which is undiversifiable, i.e., market risk. In mathematical terms, the beta represents the covariance of an asset's return and its benchmark's return, such as a stock market index, divided by variance of the benchmark asset's return. A beta of 1 thus indicates that a stock perfectly follows the movement of certain stock market index, a beta of less than one indicates less movement, a beta of higher than 1 indicates more movement whilst a negative beta implies an inverse movement to that of the benchmark. According to Damodaran (1999), one common way of estimating a beta is to run a regression of the stock return against a chosen index where beta is equal to the slope of the time series regression. The formula used for estimating beta through a linear regression on the stock market index is presented by Berk and DeMarzo (2016).

**Formula 7: Linear regression model**

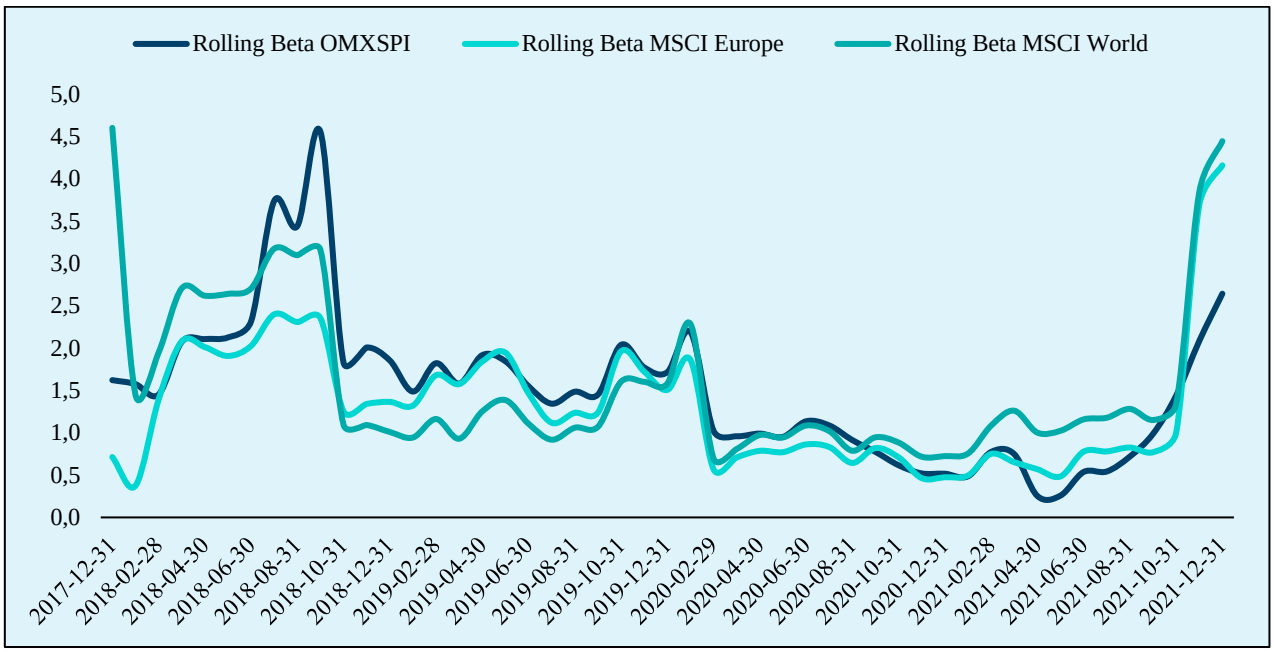
$$RE_T - Rf_T = a_T^E + \beta_T^E * (RM_T - Rf_T) + \varepsilon_T$$

$RE_T$ is the return of Evolution in period T, $Rf_T$ is the risk-free rate in period T, $RM_T$ is the return of the stock market index in period T, $a_T^E$ is the abnormal rate of return in period T and $\varepsilon_T$ is the error term in period T.

A period of five years is used to perform the estimation of Evolution's beta. One issue involved with the CAPM regression is the choice of which market portfolio should be used as a proxy for market return as Evolution is global company with international investors. To account for the company's level of international presence, three different indices are considered, namely OMXSPI which is the broad index in Sweden that covers all stocks on the Stockholm stock exchange. The second and third index is the MSCI World Index and the MSCI Europe. For the risk-free rate the Swedish 10-year government bond is used. The slope in a time series linear regression model is assumed to be constant,

which in turn would imply that Evolution's equity beta should remain constant throughout the period. We find such an assumption to be unlikely, and instead apply a rolling regression, as suggested by Groenewold and Frasier (1999), using intervals of twelve months.

**Graph 6: Rolling beta regressions**




*Source: S&P Capital IQ*

Compiled by author

In graph 6 we can clearly see that the beta of Evolution has fluctuated significantly and is hence not constant as the one-period time series regression would imply. The beta has remained positive throughout the period indicating positive movement to all indices. There are several instances where the beta is higher than 2.5 which can be explained by Evolution and the indices moving in the same direction (increase / decrease) however where Evolution has shown a larger movement than the indices. For example, as of September 2018 Evolution had a beta of 4.6, 2,4 and 3,2 to the OMXSPI, MSCI Europe and MSCI World, respectively, which is derived based on monthly returns from October 2017 to September 2018. The high beta is thus a result of Evolution significantly outperforming the indices in times of general stock market increases and underperforming the indices in times of general stock market decreases.

Since the beta has fluctuated significantly throughout the period changed over the period, we extract the median beta to each index to correct for outliers and calculate the average of these values, as displayed in table 13.

**Table 13: Regression betas**

| Rolling beta results | |
|---|---|
| Beta OMXS PI | 1,49 |
| Beta MSCI Europe | 1,24 |
| Beta MSCI World | 1,15 |
| **Average** | **1,29** |

*Source: S&P Capital IQ*

Compiled by authors

In addition to the regression approach of estimating the beta, we extract the average beta of a select number of iGaming peers that are most similar to Evolution. Koller et al. (2010) explain that one must consider the leverage of the specific companies, meaning that the equity betas from the selected peers must be unlevered with their respective capital structure and then re-levered with the target company's specific capital structure. This procedure is shown in formula 8 as presented by Damodaran (1999). The basis for our selection of peers and our calculations are presented in appendix 10**.**

**Formula 8: Unlevering the beta**

$$\beta_U = \frac{\beta_L}{(1 + (1 - Tax\ rate) * \frac{D}{E})}$$

As mentioned in section 7.3, Evolution has no financing-related interest-bearing debt and hence its equity beta is equal to its asset beta, meaning that the average of the unlevered betas does not have to be adjusted.

**Table 14: Beta of iGaming peers**

| Asset beta | |
|---|---|
| Playtech | 1,48 |
| Kambi Group | 1,20 |
| Scientific Games Corporation | 1,58 |
| International Game Technology | 1,41 |
| GAN Limited | 2,02 |
| Gaming Innovation Group | 0,99 |
| **Average** | **1,45** |

*Source: S&P Capital IQ*

Compiled by authors

To arrive at a result, we take the average of the values presented in table 13 and 14**,** corresponding to a beta of 1.37.

#### 9.1.2.3.3 Market risk premium

The market risk premium is defined as the spread between the return of the market and the risk-free rate. According to Petersen et. Al. (2017), the derived market risk premium is usually based on either the ex-ante approach or the ex-post approach.

The ex-post approach studies the historical spread between the return on the market portfolio and the risk-free rate. Assumptions behind this study implies that historical returns can be used as a proxy for future returns. However, it is commonly argued that this assumption does not hold as there are endless variables that must be considered (Saabye, 2003). The ex-ante approach, on the other hand, bases its market risk premium estimate on the consensus of various financial analysts' earnings forecasts (Petersen et al., 2017).

In this valuation, we apply a market risk premium of 6.7% as presented by PwC in their report *Riskpremien på den svenska arbetsmarknaden* (PwC, 2021). The premium is based on the ex-ante approach where 34 various financial managers, venture capitalists and financial advisors within corporate finance have been consulted in order to accurately estimate the market risk premium (PwC, 2021).

#### 9.1.2.4 Calculating the cost of equity

By applying the calculated beta of Evolution, the applicable Market Risk Premium and risk-free rate in formula 6**,** the applicable cost of equity reaches a value of 9.41%.

$$0.2357\% + 1.37 * 6.7\% = 9.41\%$$

### 9.1.3 Calculating the WACC

As Evolution is fully equity financed, the WACC is equal to the cost of equity.

### 9.1.4 Forecasting

The following section provides a forecast of Evolution's future expected performance to derive the projected free cash flows that are incorporated in formula 4. As explained by Petersen et al. (2017), the historical period is utilized to predict the future drivers and in addition, the findings from the strategic and financial analysis are incorporated. This facilitates the accuracy of the forecast since several external and internal factors that may affect Evolution's future performance are considered.

A forecasting period of five years is applied in accordance with Petersen et al. (2017) who suggest a window of five to ten years. The intuition behind utilizing a forecasting window of five years is to capture the period in which financial drivers fluctuate before they slowly convert to the terminal growth rate. Although a longer forecasting period would allow for more intricate assumptions, this would also result in more uncertainty. For a complete overview of the operational drivers, see appendix 11.

### 9.1.4.1 Revenue

**Table 15: Revenue forecast**

| EUR thousands | FY18 | FY19 | FY20 | FY21 | FY22 | FY23 | FY24 | FY25 | FY26 |
|---|---|---|---|---|---|---|---|---|---|
| **Europe** | | **184 300** | **268 900** | **416 900** | **583 660** | **758 758** | - | - | - |
| Growth (%) | | | 45,9% | 55,0% | 40,0% | 30,0% | - | - | - |
| **Asia** | | **49 600** | **125 700** | **286 500** | **515 700** | **876 690** | - | - | - |
| Growth (%) | | | 153,4% | 127,9% | 80,0% | 70,0% | - | - | - |
| **North America** | | **22 000** | **37 400** | **114 500** | **194 650** | **321 173** | - | - | - |
| Growth (%) | | | 70,0% | 206,1% | 70,0% | 65,0% | - | - | - |
| **Nordics** | | **24 300** | **29 800** | **73 100** | **102 340** | **133 042** | - | - | - |
| Growth (%) | | | 22,6% | 145,3% | 40,0% | 30,0% | - | - | - |
| **UK** | | **49 900** | **43 900** | **81 400** | **101 750** | **118 742** | - | - | - |
| Growth (%) | | | -12,0% | 85,4% | 25,0% | 16,5% | - | - | - |
| **RoW** | | **35 500** | **55 700** | **96 300** | **135 494** | **162 593** | - | - | - |
| Growth (%) | | | 56,9% | 72,9% | 40,7% | 20,0% | - | - | - |
| | | | | | | | | | |
| **Total operating revenue** | **245 418** | **365 752** | **561 134** | **1 068 777** | **1 633 594** | **2 370 998** | **2 963 747** | **3 526 859** | **4 020 619** |
| Growth (%) | 37,6% | 49,0% | 53,4% | 90,5% | 52,8% | 45,1% | 25,0% | 19,0% | 14,0% |

*Source: Authors estimates*

Compiled by authors

#### 9.1.4.1.1 FY22 Revenue

The forecasting of Evolution's revenue growth is primarily based on the company's pipeline of new games, in addition to expressed expansion plans into new markets. The general growth of the entire market is expected to be bolstered by more and more countries actively overseeing their online gambling regulations, paired with an increased internet accessibility of the general population. Evolution further highlights in its annual report that the mobile gambling segment has grown significantly over the past few years and accounted for approximately 69% of all revenue generated from the company's products and solutions (Evolution, 2022a), and thus we expect the increased smartphone penetration rate to be a contributing factor. The company has further expressed their intentions of launching a new integrated product platform.

The full incorporation of BTG will have a direct impact on the revenue. In the 2021 annual report, Evolution states that BTG contributed EUR 21.8m in revenue, whilst the company's actual revenue for the year was EUR 40.2m. All things equal, the FY22 revenue will thus increase by a minimum or EUR 18.4m, assuming no negative growth. BTG further reported revenue of EUR 33m in FY20, implying a growth rate of 21.8% in FY21. Given Evolution's large network and geographical reach, paired with upsell opportunities in the large addressable Australian market, we expect the growth to exceed that of the historical, and reach a growth rate of 30.0% in FY22 with a corresponding revenue of EUR 52.3m. Management further states in the latest annual report that the company has plans of

expanding into new regions throughout the year, one of which being Latin America. Although we expect Evolution to successfully enter the Latin American market, we find it unlikely that the company will be able to establish studios and obtain licenses to generate revenue in FY22. Additionally, as no information is available regarding the current countries included in the "RoW" region, we expect this market to grow at the level of the global online gambling market, namely 11.5% (Mordor intelligence, 2021). In total, we forecast the "Other" region to reach a revenue of EUR 135m in FY22 - corresponding to a growth rate of 40.7%.

The forecast of the North American market is primarily focused on the US due to its inherent growth opportunities as uncovered in the strategic analysis. The company currently has three studios in the US, namely in New Jersey, Pennsylvania and Michigan. The North American region generated revenue of EUR 114.5m in FY21, up from EUR 37.4m in FY20 - corresponding to YoY growth of 206.1% (Evolution, 2022a). For the sake of this analysis, we further assume that EUR 100m is attributable to the US market whilst the remaining EUR 14.5m heirs from Canada, based on the population difference between the countries. The most significant change which took place in FY21 was the establishment of the Michigan-based studio. However, as the establishment was completed during the year, its full-year revenue effect is not fully accounted for which makes the YoY growth figure not entirely applicable. We expect a similar development in FY22 as Evolution has plans of establishing a new studio in Connecticut in the current year. To grasp the potential value of this establishment, we observe the accumulated 2021 GDP per capita of the current studio states as retrieved from the Department of Numbers (n.d.). The reason for this is that the GDP per capita measure is a commonly used metric for a population's economic well-being as mentioned in section 6.1.2 and could thus serve as a measure for the total addressable market in this state. The total revenue which originated from the US in FY21 is thus divided by the accumulated GDP per capita in the selected states, which will act as a revenue-ratio, namely what fraction of the GDP that converts into revenue for Evolution. By applying this ratio on the GDP per capita of Connecticut we can thus derive the estimated revenue of Connecticut in 2022 EUR 43m. For calculations, see appendix 12. The GDP per capita is not an extensive indication of the size of a potential market, but the procedure does allow for a sort of benchmarking to base our forecast on. It should be further noted that Connecticut has a higher GDP per capita than the previously established states by more than USD 10k, which thus validates that it could generate more revenue due to the heightened consumer purchasing power. From the PESTEL analysis, it was concluded that the US online gambling market is expected to grow at a

CAGR of 17.0% up until 2027 (Businesswire, 2022). Important to note however is that this figure includes all sorts of online gambling and not exclusively online casino games which historically has displayed higher growth rates, namely 38.9% for the period 2017-2021 in North America (Evolution, 2022a). By applying the midpoint of 28.0% on the previously established studios including Canada, paired with the full-year revenue contribution of the Michigan studio and the Connecticut establishment the overall growth rate for the entire region is set to 70.0% for FY22.

Europe and the Nordics, which currently constitutes a majority of Evolution's revenue, is, as discussed throughout the strategic analysis, a relatively mature market given the large number of regulated markets in contrast to North America. Management has however outlined in the latest annual report that two more studios are scheduled to go live in 2022, namely in Armenia, which constitutes an entirely new market, and one in Madrid, Spain. As the company is already a well-established player in the European market, the growth is primarily expected to be driven by increased capacity at existing studios and the launch of new games. The company has historically released approximately 10 games per year, but guides for a total of 88 launches in 2022. The severe increase is likely since games will be aimed at target niche groups, a strategy which has not been pursued historically. The company will further release a new product platform, "One Stop Shop" on which the operators can access the entire library of Evolutions offering and is expected to attract most of the European operators. The expansion of two new studios will not likely result in significant growth rates, however given the substantial pipeline of new games, we expect Evolution to grow at a slightly lower level than to its historical development and model for roughly 40.0%. Due to similar market conditions in terms of regulation and market maturity, we expect a similar level of growth in the Nordics. Although this figure is not in line with the FY21 revenue growth one must consider that this development was heavily influenced by the acquired revenue of NetEnt and is thus not entirely comparable.

With Asia accounting for approximately 29.0% of the total revenue in FY21 it is currently the second largest market for Evolution. Asia could be considered as an immature market due to several countries prohibiting online gambling, paired with the fact that Asia has a lower internet penetration rate than the global average (Ganbold, 2021). Despite this, the revenue from Asia grew from EUR 49.6m in 2019 to EUR 286.5m in FY21. It should be further stated that Evolution has no studios located in Asia, and thus the revenue is generated from the company's international studios. However, Ezugi,

which was acquired by Evolution in late 2018, does offer some Asia-originating and local games such as Teen Patti and further offers culturally specific twists to some of its offerings such as Hindi-, and Turkish-speaking dealers (Ezugi, 2021). The vast potential of the Asian market should not be understated due to its relative immaturity and should Evolution attempt to capitalize on the opportunity by developing Asia-specific games, the growth potential could be substantial. For 2022, Evolution has not stated in their annual report that they plan on opening studios in Asia, however we expect Evolution to maintain its momentum albeit at a lower rate of 80.0%, driven primarily by an increased internet access and online gambling adoption by the Asian population.

The UK, like that of Europe, is a highly mature market with well-established regulatory bodies. Gambling activity within the country is highly active, especially following COVID-19 as discussed in the strategic analysis. Although this may be interpreted as a strength, it could also imply that the market is highly saturated and limited in its growth potential. Furthermore, the historical growth rate has fluctuated somewhat throughout the observation period, and there have long been talks of potential updates to regulations that may limit the profitability, one of which may be imposed in 2022 (Hancock, 2022). We believe that although Evolution will continue to grow in the UK market due to the company's game pipeline, but that the rate will decline from its historical level to approximately 25.0%. Admittedly, the UK region is somewhat difficult to forecast due to the level of maturity in the market, wherein a 25.0% growth rate may be somewhat optimistic. However, as uncovered in section 4.3 the COVID-19 lockdowns resulted in a significant increase in gambling participation (Emond et al., 2021). Pairing this with the fact that more than half of all gambling participants in the UK in the age 18-34 utilizes mobile devices (UK Gambling Commission, 2021a) and the heightened level of addiction in relation to mobile gambling (James et al., 2019), our forecast is thus primarily based on assumptions regarding a continued increased gambling participation among the population rather than an expansion into previously untapped markets within the region.

To summarize, we expect the accumulated growth rates across all operative regions to result in an overall growth rate for the entire company of 52.8%. The primary drivers will be the establishment of new operations in the fast growing Asian and US markets, whilst new product launches will fuel a more stable growth in the mature regions.

#### 9.1.4.1.2 FY23 Revenue

In FY23, we expect Evolution to be established in Latin America, resulting in impactful revenue generation, assuming that the regulatory processes currently being investigated in Bolivia, Mexico, and Brazil, have progressed. We further expect Argentina to account for a large portion of the growth, as the country is currently regulated on a state-basis where actors such as William Hill, 888Holding and Bet365 have licenses (Stehlik, 2021) which thus opens opportunities for Evolution. The remaining portion of the RoW region is not expected to display premiere growth to that of the global industry. Combined we expect the region to display a growth rate of 20.0% in 2023.

We maintain our view that the US market will continue to grow at a significantly higher rate than that of the global industry. The states of Indiana and Illinois are considering opening for online gambling already in 2022 and thus we expect for Evolution to have broken into these markets and generate meaningful revenue in FY23. We further believe that as more and more states legalize online gambling, others will follow effectively creating a domino effect. An example being a recently proposed bill to legalize iGaming in the state of New York (Porter, 2022). We thus expect Evolution to immediately establish market presence in these states to carry on with its expansion driven growth journey in the US. We further assume that the previously established states will become more saturated, implying that the growth is primarily driven through market expansion, and to account for this effect, the growth is dialed down slightly to 65.0%.

We expect the European and Nordic markets in which Evolution is currently present, to grow at a higher rate than that of the global average due to an increased gambling adoption and new game releases. However, as the company at this time is expected to have studios in a total of 7 countries in Europe including the planned studio for Armenia, there is further capacity expansion to be made through the establishment of new studios paired with upsell and cross-sell opportunities of BTG's slot games within the market and thus model for a total growth rate of 30.0%.

We maintain our view that Asia will be a significant contributing factor to the overall group's growth. The growth is expected to be fueled by a development of regulations, increased internet access and the further development of Asia-niched games. We further find it likely for Evolution to pursue an acquisition driven expansion, like those of Ezugi and BTG which both allowed the company to tap into new markets. Even an acquisition of a small player would allow the company to establish a

geographical foothold within the region. An example of such a target would be BetGames, a live casino studio provider with presence in Asia, Latin America, Europe and CIS (BetGames, n.d.). We anticipate the same underlying market drivers of the Asian market to be prevalent during FY23 as in FY22, however at a lower level of 70.0%.

For the UK, the potential regulations that may be imposed in combination with the increased market saturation, the opportunities for additional growth are expected to be further limited. The same argument from 9.1.4.1.1 still holds true regarding mobile gambling addiction although we anticipate further initiatives be taken to combat this aspect, resulting in an expected growth equal to the industry CAGR of 11.5% however with a slight premium of 5.0% given Evolution's brand and reputation.

#### 9.1.4.1.3 FY24 Revenue

For FY24, the uncertainty of our assumptions could potentially cause them to be invalidated. Due to this, our forecasting is performed from a companywide perspective rather than on a detailed regional basis. We expect the ongoing regulatory changes in the US to have progressed even further with more states allowing for online gambling paired with an increased penetration in the Asian markets to be the primary drivers of the company. The currently dominant and mature markets, Europe, Nordics are expected to converge to the industry average whilst the UK is expected to dial down to single-digit growth. RoW is expected to be primarily driven by the Latin American expansion whereas the remaining, unnamed regions, are expected to grow at a similar rate to the UK. In total, we expect the company reach a growth rate of 25.0%.

#### 9.1.4.1.4 FY25-26 Revenue

Since the final two years of the forecasting window is highly assumptive and characterized by severe uncertainty, we expect the revenue of Evolution to dial down due to overall market saturation and increased regulation initiatives to combat addiction and mental health issues. However, we still expect Evolution's momentum and international reach to result in a premium to the industrial average, and thus model for a growth rate of 19.0% in FY25 and 14.0% in FY26.

### 9.1.4.2 Operating expenses

Historically speaking, Evolution has displayed a decreasing trend in its operating expenses, especially when observing the personnel costs which have decreased significantly from 39.8% of sales in FY18 to 19.4% of sales in FY21. This development is however not that surprising as Evolution's software-oriented business model allows for significant economies of scale paired with a large headcount of employees in labor-cheap countries. The other portion has fluctuated somewhat with no clear trend but has remained within a relatively narrow interval of 15.0%

**Table 16: Operating expenses forecast**

| EUR thousands | FY18 | FY19 | FY20 | FY21 | FY22 | FY23 | FY24 | FY25 | FY26 |
|---|---|---|---|---|---|---|---|---|---|
| **Personnel Expenses** | **-97 674** | **-126 419** | **-133 752** | **-207 165** | **-310 383** | **-450 490** | **-548 293** | **-652 469** | **-743 815** |
| % of sales | 39,8% | 34,6% | 23,8% | 19,4% | 19,0% | 19,0% | 18,5% | 18,5% | 18,5% |
| **Other** | **-40 063** | **-56 385** | **-95 169** | **-126 962** | **-277 711** | **-391 215** | **-448 859** | **-534 142** | **-608 922** |
| % of sales | 16,3% | 15,4% | 17,0% | 11,9% | 17,0% | 16,5% | 15,1% | 15,1% | 15,1% |
| **Total OPEX (excl. D&A)** | **-137 737** | **-182 804** | **-228 921** | **-334 127** | **-588 094** | **-841 704** | **-997 152** | **-1 186 611** | **-1 352 736** |
| % of sales | 56,1% | 50,0% | 40,8% | 31,3% | 36,0% | 35,5% | 33,6% | 33,6% | 33,6% |

*Source: Authors estimates*

Compiled by authors

We expect Evolution to maintain its operational expenses at a level close to its historical performance but for the disposition to change. The personnel expenses are expected to display a similar development to the historical decreasing trend, although at a slower rate. For FY22 we expect the personnel costs as % of sales to decrease by half a percent to 19.0% and remain still in FY23. Beyond this point we expect the cost to decrease to 18.5%. An expansion into the US market could result in a slight increase in the relative personnel costs as labor is more expensive than in Europe where most of Evolution's current studios are located (Tradingeconomics, 2021c). However, this potential increase is expected to be off-set by the expansion in Asia and potentially Latin America which has lower labor-costs (Tradingeconomics, 2021c).

However, as we further expect the company to pursue aggressive growth through expansion in the US and Asia in addition to further expanding their product portfolio, these assumptions should imply a higher cost-base. The increase is shown as other costs and is related to increased overhead costs when entering the new markets and establishing new studios, and thus we expect other costs to reach 17.0% in FY22. As we expect Evolution to become slightly more efficient in managing its costs in relation to international expansions in FY23 compared to FY22, we model for 16.5% as we still

expect the company to pursue expansion in the US, Asia and Latin America. Beyond this point, we expect the aggressive expansion to dial down and instead reach the historical average of 15.1%.

### 9.1.4.3 EBITDA

Since Evolution does not report cost of goods sold, the EBITDA will simply be equal to the company's revenue less the operating expenses. As the operating expenses are expected to increase in FY22 and FY23 due to an aggressive market expansion this will clearly result in a lower EBITDA margin than compared to FY21. However, as the company becomes more efficient in managing its cost in addition to reducing its market expansion in FY24 and beyond, this implies that the total operating expenses will stabilize, resulting in an EBITDA margin of 66.4%.

**Table 17: EBITDA forecast**

| EUR thousands | FY18 | FY19 | FY20 | FY21 | FY22 | FY23 | FY24 | FY25 | FY26 |
|---|---|---|---|---|---|---|---|---|---|
| **EBITDA** | **107 681** | **182 948** | **332 213** | **734 650** | **1 045 500** | **1 529 293** | **1 966 595** | **2 340 248** | **2 667 883** |
| % of sales | 43,9% | 50,0% | 59,2% | 68,7% | 64,0% | 64,5% | 66,4% | 66,4% | 66,4% |

*Source: Authors estimates*

Compiled by authors

By simply observing the historical EBITDA margin development one could make the argument that the profitability would likely increase over time. However, we find such a method of thinking incorrect as it does not account for the relevant costs which impact the profitability.

To derive the EBIT of Evolution, one must first forecast the depreciation and amortization for the period. As the D&A will in turn be driven by our assumptions regarding investments, the CAPEX must also be forecasted.

### 9.1.4.4 CAPEX

**Table 18: CAPEX forecast**

| EUR thousands | FY18 | FY19 | FY20 | FY21 | FY22 | FY23 | FY24 | FY25 | FY26 |
|---|---|---|---|---|---|---|---|---|---|
| **CAPEX, Tangible** | **17 868** | **18 950** | **23 251** | **33 307** | **65 344** | **94 840** | **103 731** | **114 623** | **124 639** |
| % of sales | 7,3% | 5,2% | 4,1% | 3,1% | 4,0% | 4,0% | 3,5% | 3,3% | 3,1% |
| **CAPEX, Intangible** | **15 262** | **11 158** | **13 635** | **28 285** | **98 016** | **118 550** | **106 294** | **126 490** | **144 198** |
| % of sales | 6,2% | 3,1% | 2,4% | 2,6% | 6,0% | 5,0% | 3,6% | 3,6% | 3,6% |

*Source: Authors estimates*

Compiled by authors

#### 9.1.4.4.1 Capex tangible

Investment in Property Plant and Equipment (PP&E) has historically seen a decreasing trend in relation to Evolution's total sales, which is likely a result of the economies of scale as previously discussed. For the upcoming two years however, the expansion plans involving establishment in new countries is expected to require investments in tangible assets such as offices and equipment, resulting in a slightly higher CAPEX. It is therefore forecasted to be 4.0% of sales in FY22 and FY23. Following FY23 we expect the investment in tangible assets to dial down and move towards 3.1% of total sales which is in line with historical levels.

#### 9.1.4.4.2 Capex intangible

Regarding investment in intangible assets, we expect Evolution to significantly increase its capital expenditure in both FY22 and FY23 when compared to its historical rate, as measured by a percentage of sales. As discussed in section 9.1.4.1, the management team has stated its intentions of releasing a total of 88 games in 2022, the highest number of games released since the company's inception. Clearly such a plan will entail significant investment in product development, or as stated by the company, capitalized development costs. Evolution has not yet stated any guidance for the product development pipeline in 2023, and we do not expect the company to have an identical ambition to that of 2022. However, we assume further capital expenditure to be driven by the development of more niched games aimed at specific target groups, and the need to keep up with the ever-evolving technological advancements within the industry. We model for a capital expenditure of 6.0% and 5.0% in FY22 and FY23, respectively. Following this, we expect the investment intensity to dial down and converge to its historical average of roughly 3.6%.

### 9.1.4.5 Depreciation and amortization

In both the case of depreciation and amortization, Evolution applies a standardized scheme wherein the tangible and intangible assets are depreciated and amortized on a straight-line basis, as discussed in section 7.1.4. To gain further insight, we analyze how to forecast the D&A in the most appropriate manner. In the financial analysis, we observed the D&A as a percentage of sales, however, as we expect Evolution to grow significantly, applying rates based on the sales growth could potentially lead to inaccurate or inflated results. Another metric which could be used instead is the depreciation

or amortization in relation to the total value of Evolution's tangible and intangible assets at the beginning of the year, respectively.

**Table 19: Depreciation**

| EUR thousands | FY18 | FY19 | FY20 | FY21 |
|---|---|---|---|---|
| **Tangible assets, BOY** | **41 873** | **58 069** | **96 661** | **191 898** |
| **Adjusted tangible assets, BOY** | **40 209** | **54 576** | **90 242** | **186 924** |
| **Depreciation** | **-7 581** | **-13 624** | **-17 206** | **-26 506** |
| % of adjusted tangible assets, BOY | 18,9% | 25,0% | 19,1% | 14,2% |

*Source: Evolution (2022a; 2020b)*

Compiled by authors

Evolution further has tangible assets which are not subject to depreciation based on their annual fillings, namely land and work in progress, which are thus subtracted from the beginning of year asset base for increased comparability, marked as “adjusted tangible assets” in table 19. See appendix 13 for separation. A large portion of the reported depreciation is in relation to the right of use assets, i.e., the company’s lease obligations as well as leasehold improvements which refers to expenditure related to the enhancement of properties (AccountingTools, 2022). We do not delve in the accounting technicalities of the lease-depreciation as we feel this falls outside the scope of this paper and will have little impact on the outcome of our results. To simply the matter we instead take into consideration the expected increase of investments in offices and equipment as mentioned in section 9.1.4.4.1 in FY22 and FY23, which should increase the total depreciation ratio towards the expressed depreciation schedule of these assets at 20-50% per annum. We can further observe that the highest depreciation rate was in FY19 at 25.0%. For conservative purposes we thus apply this value throughout our entire forecast period.

A similar method is conducted to derive the amortization, namely extracting a relevant intangible asset base from which an amortization rate is derived. As explained in section 7.2.2, Evolution’s assets increase in FY20 was largely due to the NetEnt acquisition which added a significant portion of intangible assets and goodwill to the balance sheet, followed by the acquisition of BTG in 2021. Further on, Evolution has historically only amortized a handful of intangible assets, namely its gaming programs, licenses and patents, customer relationships and gaming platform – described as “adjusted intangible assets” in table 20, see appendix 14 for separation. The remaining intangible

assets, i.e., goodwill, brand and work in progress (WIP) have rather been subject to occasional impairments and are thus not taken into consideration when forecasting the amortization.

**Table 20: Amortization**

| EUR thousands | FY18 | FY19 | FY20 | FY21 |
|---|---|---|---|---|
| **Intangible assets, BOY** | **38 518** | **53 596** | **80 277** | **2 616 796** |
| **Adjusted intangible assets, BOY** | **38 518** | **53 596** | **67 531** | **441 333** |
| **Amortization** | **-10 278** | **-11 853** | **-15 307** | **-54 794** |
| % of adjusted intangible assets, BOY | 26,7% | 22,1% | 22,7% | 12,4% |

*Source: Evolution (2022a; 2020b)*

Compiled by authors

The amortization to selected intangible asset ratio is somewhat stable and further in line with the expressed amortization scheme, however, as a majority of the selected intangible assets consists of Evolution's gaming program, the amortization rate should reasonably be closer to 33.3% per year rather than 20.0% per year. The clear outlier is FY21 which not only deviates completely from the previous years but is further significantly lower than the expressed amortization rate. Important to note however, is that the amortizable intangible assets which Evolution acquired with NetEnt, namely its gaming program, customer relationships and platform, as well as BTG, namely its gaming program and customer relationships, are to be amortized over an estimated useful life of 10 years (Evolution, 2022a). These assets of NetEnt were added to the mix in FY21 when the acquisition was completed which is likely the reason why the ratio is skewed downwards.

As the amortization scheme is different to that used by Evolution on its in-house developed assets, we decide to separate the assets. From the annual reports of 2020 and 2021 we can distinguish the amortizable assets attributable to the NetEnt and BTG acquisitions from Evolution's consolidated adjusted intangible assets. This is done by observing the fair value of these assets at the date of the acquisitions as presented in table 21. In accordance with Evolution's guidance, these assets are to be amortized at 10.0% per year, as displayed in table 22.

**Table 21: Fair value of acquired relevant assets**

| EUR thousands | NetEnt - EOY FY20 | BTG - EOY FY21 |
|---|---|---|
| Gaming program | 161 056 | 75 400 |
| Customer relationships | 188 179 | 1 100 |
| Platform | 4 508 | - |
| Licenses and patents | 0 | - |
| **Total** | **353 743** | **76 500** |

*Source: Evolution (2022a)*

Compiled by authors

**Table 22: Amortization of acquired assets**

| EUR thousands | FY20 | FY21 | FY22 | FY23 | FY24 | FY25 | FY26 |
|---|---|---|---|---|---|---|---|
| **NetEnt Intangible Assets** | | | | | | | |
| Gaming programme | 161 056 | 144 950 | 128 845 | 112 739 | 96 634 | 80 528 | 64 422 |
| Customer relationships | 188 179 | 169 361 | 150 543 | 131 725 | 112 907 | 94 090 | 75 272 |
| Platform | 4 508 | 4 057 | 3 606 | 3 156 | 2 705 | 2 254 | 1 803 |
| **Total** | **353 743** | **318 369** | **282 994** | **247 620** | **212 246** | **176 872** | **141 497** |
| | | | | | | | |
| **NetEnt Amortization** | | | | | | | |
| Gaming programme | - | -16 106 | -16 106 | -16 106 | -16 106 | -16 106 | -16 106 |
| Customer relationships | - | -18 818 | -18 818 | -18 818 | -18 818 | -18 818 | -18 818 |
| Platform | - | -451 | -451 | -451 | -451 | -451 | -451 |
| **Total** | - | **-35 374** | **-35 374** | **-35 374** | **-35 374** | **-35 374** | **-35 374** |
| | | | | | | | |
| **BTG Intangible Assets** | | | | | | | |
| Gaming programme | | 75 400 | 67 860 | 60 320 | 52 780 | 45 240 | 37 700 |
| Customer relationships | | 1 100 | 990 | 880 | 770 | 660 | 550 |
| **Total** | | **76 500** | **68 850** | **61 200** | **53 550** | **45 900** | **38 250** |
| | | | | | | | |
| **BTG Amortization** | | | | | | | |
| Gaming programme | | | -7 540 | -7 540 | -7 540 | -7 540 | -7 540 |
| Customer relationships | | | -110 | -110 | -110 | -110 | -110 |
| **Total** | | | **-7 650** | **-7 650** | **-7 650** | **-7 650** | **-7 650** |
| | | | | | | | |
| **Total acquired amortization** | | **-35 374** | **-43 024** | **-43 024** | **-43 024** | **-43 024** | **-43 024** |

*Source: Evolution (2022a), authors estimates*

Compiled by authors

Based on the information uncovered, we can derive the value of Evolution's in-house assets at EOY FY21 which will further be interpreted as BOY FY22 and will thus be the basis for our amortization in FY22.

**Table 23: Amortizable intangible assets BOY**

| EUR thousands | FY22 |
|---|---|
| **Evolution stand-alone intangible Assets** | |
| Gaming programme | 19 080 |
| Licenses and patents | 11 620 |
| Platform | 279 |
| **Total** | **30 978** |

*Source: Evolution (2022a), authors estimates*

Compiled by authors

For Evolution's in-house assets we take their expressed amortization scheme at face value and apply a weighted average amortization rate of 30.0% per year, as a majority of the assets are expected to comprise gaming program and its gaming platform. Important to note is that all CAPEX investments made throughout the forecast period are assumed to be classified as in-house development and are thus amortized at 30.0% per year going forward. This further implies that the assets related to the NetEnt and BTG acquisitions will eventually go to zero.

**Table 24: CAPEX and D&A forecast**

| EUR thousands | FY21 | FY22 | FY23 | FY24 | FY25 | FY26 |
|---|---|---|---|---|---|---|
| **Tangible assets, BOY** | **-** | **134 467** | **166 194** | **219 485** | **268 345** | **315 882** |
| Depreciation | - | -33 617 | -41 549 | -54 871 | -67 086 | -78 970 |
| CAPEX | - | 65 344 | 94 840 | 103 731 | 114 623 | 124 639 |
| **Tangible assets, EOY** | **134 467** | **166 194** | **219 485** | **268 345** | **315 882** | **361 551** |
| | | | | | | |
| **Intangible assets, BOY** | **-** | **757 250** | **802 948** | **842 563** | **845 131** | **854 216** |
| Amortization | - | -52 318 | -78 934 | -103 726 | -117 404 | -133 037 |
| CAPEX | - | 98 016 | 118 550 | 106 294 | 126 490 | 144 198 |
| **Intangible assets, EOY** | **757 250** | **802 948** | **842 563** | **845 131** | **854 216** | **865 378** |

*Source: Evolution (2022a), authors estimates*

Note that the depreciation and amortization is derived based on the value of depreciated and amortized asset classes, whilst table 23 reflects the total value of tangible assets and the total value of intangible assets less goodwill.

### 9.1.4.6 EBIT

Similar to our process to derive the EBITDA, the EBIT is forecasted based on our assumptions on the depreciation and amortization which in turn is driven by our assumptions regarding capital expenditures.

**Table 25: EBIT forecast**

| EUR thousands | FY18 | FY19 | FY20 | FY21 | FY22 | FY23 | FY24 | FY25 | FY26 |
|---|---|---|---|---|---|---|---|---|---|
| **EBIT** | **89 822** | **157 471** | **299 700** | **653 350** | **959 566** | **1 408 811** | **1 807 998** | **2 155 758** | **2 455 876** |
| % of sales | 36,6% | 43,1% | 53,4% | 61,1% | 58,7% | 59,4% | 61,0% | 61,1% | 61,1% |

*Source: Evolution (2022a; 2020b), authors estimates*

As we expect the company to increase its investment focus, this will lead to a higher level of depreciation and amortization than in previous years and thus the EBIT-margin will decrease in FY22 and FY23 followed by a slight increase in FY24 from which point it stabilizes at around 62.5%.

### 9.1.4.7 Taxrate

As discussed in the financial and strategic analysis, Evolution's applied effective tax rate is a result of most of its revenue being incorporated through its Maltese holding company. For the sake of simplicity, we apply the historically average effective tax rate of 5.64%. However, as we are skeptical of the low tax rate in general, paired with the proposed tax increases in Malta, the assumption is scrutinized in the scenario analysis.

### 9.1.4.8 Working capital

The posts presented in table 26 are those which will account for the working capital of Evolution. As can be observed, close to all separate posts remained close to stagnant throughout the entire observation period with an exception to other current liabilities in FY20 which increased significantly. The reason behind the higher current liabilities during FY20 and FY21 is the inclusion of debt for redemption of outstanding NetEnt shares in conjunction with the acquisition. Due to the stability of all posts which affects the working capital, we expect each post to be equal to its historical average throughout the observation period. The same holds true for other current liabilities since we expect the company to pursue some acquisitive growth which thus may result in further debt redemptions.

**Table 26: Working capital forecast**

| EUR thousands | FY18 | FY19 | FY20 | FY21 | FY22 | FY23 | FY24 | FY25 | FY26 |
|---|---|---|---|---|---|---|---|---|---|
| Accounts receivable | **47 622** | **66 457** | **120 481** | **200 700** | **317 832** | **461 301** | **576 626** | **686 185** | **782 250** |
| % of sales | 19,4% | 18,2% | 21,5% | 18,8% | 19,5% | 19,5% | 19,5% | 19,5% | 19,5% |
| Other receivables | **1 729** | **7 258** | **8 755** | **13 175** | **22 388** | **32 494** | **40 617** | **48 334** | **55 101** |
| % of sales | 0,7% | 2,0% | 1,6% | 1,2% | 1,4% | 1,4% | 1,4% | 1,4% | 1,4% |
| Prepaid expenses and accrued income | **3 218** | **3 208** | **10 583** | **31 785** | **28 785** | **41 779** | **52 223** | **62 146** | **70 846** |
| % of sales | 1,3% | 0,9% | 1,9% | 3,0% | 1,8% | 1,8% | 1,8% | 1,8% | 1,8% |
| Accounts payable | **3 190** | **5 300** | **15 335** | **8 578** | **25 665** | **37 250** | **46 563** | **55 410** | **63 167** |
| % of sales | 1,3% | 1,4% | 2,7% | 0,8% | 1,6% | 1,6% | 1,6% | 1,6% | 1,6% |
| Other current liabilities | **11 521** | **19 604** | **128 502** | **111 127** | **177 050** | **256 971** | **321 214** | **382 244** | **435 758** |
| % of sales | 4,7% | 5,4% | 22,9% | 10,4% | 10,8% | 10,8% | 10,8% | 10,8% | 10,8% |
| Accrued expenses and prepaid income | **7 168** | **21 728** | **37 010** | **44 480** | **80 123** | **116 290** | **145 362** | **172 981** | **197 198** |
| % of sales | 2,9% | 5,9% | 6,6% | 4,2% | 4,9% | 4,9% | 4,9% | 4,9% | 4,9% |
| Net working capital | **30 690** | **30 291** | **-41 028** | **81 475** | **86 166** | **125 062** | **156 327** | **186 030** | **212 074** |
| % of sales | 12,5% | 8,3% | -7,3% | 7,6% | 5,3% | 5,3% | 5,3% | 5,3% | 5,3% |
| Change in net working capital | **5 095** | **-399** | **-71 319** | **122 503** | **4 691** | **38 895** | **31 265** | **29 702** | **26 044** |

*Source: Evolution (2022a; 2020b), authors estimates*

Compiled by authors

As a result, the working capital reaches an estimate of 5.3% of sales in each year. The change in working capital is driven exclusively by our forecasted revenue growth and will have a somewhat insignificant impact on the valuation. The conclusion that the working capital will have minimal impact on the valuation is further reasonable since the software industry in general displays a lower working capital to sales ratio than the total market (Damodaran, 2022).

#### 9.1.4.9 Adjustments

Adjustments for the earnouts in relation to the acquisition of BTG are further incorporated as these have an impact on the company's cash position as well as its number of outstanding shares, since a portion of the earnouts (30.0%) are to be paid in newly issued shares as discussed in section 5.6**.** For calculations, see appendix 15.

In the 2021 annual report, Evolution reported a total of EUR 230m in other long-term liabilities which are further noted to be related to BTG earnouts. The earnouts are to be paid in 2023 and 2024 (assumed at end of year), and the amount is based on BTG's performance measured in EBITDA for each period. Evolution has not disclosed the precise threshold required for the full earnout to become payable, however, as we expect the group to experience significant growth whilst maintaining a solid level of profitability throughout the forecast period, we assume that the full amount will be payable. In such an event, EUR 115m is to be paid in both 2023 and 2024. To derive the present value of the

cash-earnouts which are expected to amount to EUR 80.5m in each year, the values are discounted with Evolution's WACC which yields a present value of EUR 128.9m, that is subtracted from the company's cash position.

For the share-based payments, the value of the payments, namely EUR 34.5m in each year, is also discounted to find the present value. However, to find the number of shares to be issued, an applicable stock price must be decided upon. Evolution notes in the press release relating to the acquisition that the newly issued shares in relation to the earnout payments will be priced equal to the volume weighted average in the relevant earnout period (Evolution, 2021b). As we are unable to derive such values for the future, we will simply apply the share price as of December 31st, 2021 of EUR 125. Based on these assumptions, a total 441,301 shares are to be issued which will thus be added to the NOSH.

Additionally, Evolution notes a financial liability labeled as "debt compulsory redemption shares NetEnt" of EUR 71.6m as payable within the next three months. Although we are unable to conclude the exact meaning of this post, we consider it similar to that of a standard redemption of shares, wherein the shareholders are required to sell a portion of their shares to the company at a predetermined price (Berk and DeMarzo, 2016). Thereby, the value of EUR 71.6m is also discounted using Evolution's applicable WACC - resulting in a present value of EUR 70m which is subtracted from the company's cash position. As a number of shares will be purchased by Evolution, this will result in a decrease of the NOSH. For comparability's sake, the share price as of December 31st, 2021 will be used, resulting in a total of 560,065 shares to be bought.

**Table 27: Adjustments**

| EUR thousands | |
|---|---|
| NOSH | 215 111 115 |
| Shares to be issued | 441 301 |
| Shares to be bought | -560 065 |
| **Adjusted NOSH** | **214 992 351** |
| | |
| Cash and cash equivalents (EURm) | 421 |
| Earnouts BTG (EURm) | -129 |
| Redemption of shares NetEnt (EURm) | -70 |
| **Adjusted cash and cash equivalents (EURm)** | **223** |

*Source: Evolution (2021b; 2022a), authors estimates*

Compiled by authors

### 9.1.4.10 Free cash flow calculations

Based on our assumptions and forecasts we are able to derive the free cash flow for each year and apply them in formula 4. The cash flows are discounted using Evolution's cost of equity due to 100% equity-financed capital structure to derive the fair enterprise value of Evolution.

**Table 28: Free cash flow forecast**

| EURm | FY22 | FY23 | FY24 | FY25 | FY26 |
|---|---|---|---|---|---|
| **Free Cash Flow calculations** | | | | | |
| Total revenues | 1 634 | 2 371 | 2 964 | 3 527 | 4 021 |
| EBITDA | 1 046 | 1 529 | 1 967 | 2 340 | 2 668 |
| - Depreciation | (34) | (42) | (55) | (67) | (79) |
| - Amortization | (52) | (79) | (104) | (117) | (133) |
| EBIT | 960 | 1 409 | 1 808 | 2 156 | 2 456 |
| Tax rate | 5,64% | 5,64% | 5,64% | 5,64% | 5,64% |
| Adjusted tax on EBIT | (54) | (79) | (102) | (122) | (138) |
| NOPLAT | 905 | 1 329 | 1 706 | 2 034 | 2 317 |
| D&A added back | 86 | 120 | 159 | 184 | 212 |
| - Change in net working capital | (5) | (39) | (31) | (30) | (26) |
| - CAPEX | (163) | (213) | (210) | (241) | (269) |
| **Free Cash Flow to Firm (FCFF)** | **823** | **1 198** | **1 623** | **1 948** | **2 235** |
| | | | | | |
| Years to discount | 0,5 | 1,5 | 2,5 | 3,5 | 4,5 |
| Discount Factor | 0,956 | 0,874 | 0,799 | 0,730 | 0,667 |
| **PV of FCFF** | **787** | **1 046** | **1 297** | **1 422** | **1 491** |
| | | | | | |
| Effective tax rate | 5,64% | | | | |
| WACC | 9,41% | | | | |
| Terminal growth rate | 2,50% | | | | |
| | | | | | |
| Present value of forecast period | 6 043 | | | | |
| Present value of terminal value | 22 115 | | | | |
| **Enterprise value 31/12 2021** | **28 157** | | | | |
| Lease liabilities | (68) | | | | |
| Cash & CE | 421 | | | | |
| - Adjustments | (199) | | | | |
| **Equity value 31/12 2021** | **28 312** | | | | |

| | |
|---|---|
| NOSH | 215 111 115 |
| -Adjustments | (118 764) |
| **Adjusted NOSH** | **214 992 351** |

| | |
|---|---|
| **Price per share** | **132** |

*Source: Authors estimates*

Compiled by authors

To find the share price of Evolution, the net debt position must be subtracted from the enterprise value, namely adding the value of the company's cash and cash equivalents, and subtracting the value of the company's interest-bearing liabilities, which in this case refers to lease liabilities. The adjustments derived in section 9.1.4.9 are further incorporated**.** A share price of EUR 132 is achieved

as compared to the actual closing share price of EUR 125 as of December 31st, 2021 – corresponding to an upside of 6.4%.

### 9.1.5 Sensitivity analysis

Petersen et al. (2017) highlight the importance of performing a sensitivity analysis following the completion of a DCF valuation, since a majority of the drivers are based on the constructor's assumptions that may include potential biases. The most common metric to evaluate is the discount rate which is heavily dependent on the market related factors such as beta, market risk premium and the risk-free rate, and is thus subject to severe fluctuations depending on current market movements and sentiment. Additionally, a constant capital structure has been applied, which in this case results in the WACC being equal to the cost of equity. A company's capital structure may however change which would lead to a corresponding change in the WACC. Therefore, it is paramount to investigate further how a change in the discount rate affects the implied share price. As the terminal value of the forecast period accounts for approximately 78.7% of the total calculated enterprise value, the assumptions regarding the terminal growth should further be analyzed.

Further on, discussions regarding the effective tax rate have been touched upon multiple times. We applied an effective tax rate equal to the historical average in the actual DCF, as we found it difficult to properly rationalize whether the proposed Malta tax increase will be realized. To examine how such a change would impact the valuation of Evolution, a sensitivity analysis is also conducted on the tax rate.

#### 9.1.5.1 WACC and TGR

**Table 29: Sensitivity analysis: WACC and TGR**

| | | WACC | | | | | | |
|---|---|---|---|---|---|---|---|---|
| | | 8,91% | 9,16% | 9,41% | 9,66% | 9,91% | Deviation | Elasticity |
| TGR | 2,00% | 134 | 129 | 124 | 120 | 116 | -13,16% | -117,23% |
| | 2,25% | 138 | 133 | 128 | 123 | 119 | -13,56% | -120,82% |
| | 2,50% | 142 | 137 | 132 | 127 | 122 | -13,99% | -124,66% |
| | 2,75% | 147 | 141 | 136 | 131 | 126 | -14,45% | -128,78% |
| | 3,00% | 153 | 146 | 140 | 135 | 130 | -14,95% | -133,19% |
| Deviation | | 14,12% | 13,46% | 12,85% | 12,29% | 11,77% | | |
| Elasticity | | 28,24% | 26,92% | 25,70% | 24,58% | 23,54% | | |

*Source: Authors estimates*
Compiled by authors

In table 29 we have made increments of 0.25% in both the WACC and the terminal growth rate to provide comparability. The share price is slightly more sensitive to changes in the WACC than of the growth rate, as can be observed from the deviation. When fixing the growth rate at 3.0% and applying the highest and lowest WACCs the price varies from EUR 130 to EUR 153 which equals a deviation of -14.95%. Compared to a fixed WACC of 8.91%, the change in the growth rate leads to a price interval of EUR 134 to EUR 153 with a corresponding deviation of 14.12%. This is quite intuitive due to the nature of the Gordon Growth method, as shown in formula 4 since the impact of the growth rate is effectively discounted by the WACC. This can be further proven by instead observing the elasticity of the two parameters, namely by taking the percentage in share price divided by the percentage change in input, (WACC or TGR). From this we can observe that the elasticity for the WACC is negative, which is reasonable as an increased WACC results in a lower present value. It can further be seen that the elasticity is larger than 100% in absolute terms, meaning that increasing the WACC as $WACC * (1 + 0.01)$ will decrease the share price of more than $Price * (1 - 0.01)$. The model is thus most sensitive to assumptions and changes in the WACC which will be explored further.

#### 9.1.5.2 Beta and market risk premium

To ensure our calculated WACC is suitable, we compared it to the industrial average cost of capital for peers within the Software (Internet), Software (Entertainment) and Software (System & Application) as reported by Damodaran (2021b). As of Evolution is 100% equity financed, simply observing the cost of capital may not be applicable, however all the industrial peer groups have a low portion of debt in their capital structure paired with a single digit tax-rate, like that of Evolution, which thus validates the argument of comparing their cost of capital as it will be primarily driven by the cost of equity. However, when observing the industrial peers, they all display a beta that is lower than Evolution's 1.37. Due to this we want to further analyze how our assumption sways the implied valuation.

**Table 30: Sensitivity analysis: Beta and MRP**

| | | Beta | | | | | | |
|---|---|---|---|---|---|---|---|---|
| | | 1,07 | 1,22 | 1,37 | 1,52 | 1,67 | Deviation | Elasticity |
| MRP | 5,70% | 244 | 198 | 166 | 143 | 126 | -48,40% | -85,93% |
| | 6,20% | 213 | 174 | 147 | 127 | 112 | -47,32% | -84,01% |
| | 6,70% | 189 | 156 | 132 | 115 | 101 | -46,46% | -82,47% |
| | 7,20% | 170 | 141 | 120 | 104 | 92 | -45,74% | -81,21% |
| | 7,70% | 154 | 128 | 109 | 95 | 85 | -45,15% | -80,15% |
| Deviation | | -36,72% | -35,21% | -34,14% | -33,35% | -32,73% | | |
| Elasticity | | -104,66% | -100,36% | -97,31% | -95,04% | -93,29% | | |

*Source: Authors estimates*
Compiled by authors

As the beta and market risk premium are not both measured as a percentage, we are unable to apply identical increments as in table 29**,** and thus the primary metric to observe is the implied elasticity. From this we can conclude that the share price is more sensitive to changes in the market risk premium than to changes in the assumed beta. As our assumptions regarding the market risk premium was derived based on an accredited and trustworthy source (PwC, 2021), we don't find a need to scrutinize our assumption. Disregarding the relatively lower elasticity of the beta, it is still significant in absolute terms and clearly has an impact on the implied valuation. However, as our beta was derived based on a combination of methods, we feel our assumption is substantiated.

#### 9.1.5.3 Taxrate

As discussed throughout the strategic and financial analysis, Evolution has a single digit effective tax rate due to its corporate structure related to its Malta-based holding company. However, due to the recently proposed taxation changes in Malta, the effective tax rate could be increased significantly, as discussed in section 6.1.1.6. To observe whether this would have a material impact on Evolution if the change would be incorporated soon, we have further performed a sensitivity analysis on the tax rate. If a company is partially debt financed, a tax rate increase will have both positive and negative effects on the valuation. A higher tax rate will clearly lead to a reduction in the free cash flow, but it would also effectively reduce the after-tax cost of debt and correspondingly, lower the WACC, as discussed in section 7.4. However, as Evolution is currently 100% equity financed which we have further assumed to be the target capital structure throughout the forecast, the only parameter which will be affected by a tax increase would be the free cash flows.

**Table 31: Sensitivity analysis: Taxrate**

| | | Taxrate | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|
| | | 5,64% | 7,14% | 8,64% | 10,14% | 11,64% | 13,14% | 14,64% | 16,14% |
| WACC | 9,41% | 132 | 130 | 127 | 125 | 123 | 121 | 119 | 116 |

*Source: Authors estimates*
Compiled by authors

As there is no offset dynamic due to the capital structure, the implied share price decreases linearly by approximately EUR 2 for an increase of 1.5% in the effective tax rate. As the current tax rate in Malta is set at 5.0% and the group's average throughout the observation period was 5.64%, the tax increase to 15.0% could likely result in the company having to pay an effective tax rate of 14-16% which result in a decrease of EUR 13-16 from our original share price.

### 9.1.6 Scenario analysis

Our base case DCF valuation resulted in a target price of EUR 132. However as discussed in section 9, the DCF is highly dependent on the constructor's assumptions. Where section 9.1.5 aimed to analyze the assumptions, which affects the DCF valuation, the purpose with this subsequent section is to provide a scenario analysis where our assumptions regarding Evolution's operations such as revenue growth and profitability are altered. Optimistic and conservative assumptions will thus be incorporated to observe how these will affect the implied valuation. The assumptions are based on the findings uncovered in the strategic and financial analysis which can amend the valuation. The adjustments of earnouts from section 9.1.4.9 have further been incorporated when deriving the implied share price.

#### 9.1.6.1 Bull case

The bull case will incorporate several of the opportunities that were uncovered in the strategic analysis and presented in the SWOT-analysis in section 8. To observe how these opportunities could be capitalized, a DCF scenario with more optimistic assumptions will be deployed. The forecasting will not be as detailed as in section 9.1.4 but rather amend these assumptions to capture the opportunities presented below.

- Several states in the US incorporates regulations and opens for online gambling, allowing for Evolution to gain additional market shares

- Third wave of COVID-19 results in additional lockdowns and a continuously heightened demand for online gambling as the number of new cases worldwide surged in December of 2021 (Covidtracker, 2022)
- The retention rate for gambling continues to be high which implies that players who developed a gambling habit during COVID-19 lockdowns will continue to gamble
- Evolution starts to hedge against currency risk as they increase their global activity which results in heavier exposure for currency fluctuations
- Accelerated development and implementation of VR and AR technology in the online gambling industry will boost the social aspect of gambling and in turn allowing Evolution to capture a broader market
- Cryptocurrency becomes a widely accepted currency within the online gambling industry resulting in safer, cheaper and more rapid payments as well as increased gambling anonymity, resulting in an increased demand
- Evolution completes further additional strategic acquisitions to gain market shares in a new geographical markets or verticals
- Evolution continues to allocate a majority of its workforce in low-labor cost countries, resulting in an increased profitability

To account for the more optimistic assumptions presented above, we assume a higher growth rate for each year throughout the forecast period which is thus incorporated in the sales driven value drivers. We still maintain our assumption that growth will be primarily driven by the US and Asia and, whilst the growth rates for Europe and Nordics are unchanged, due to the difficulty of forecasting mature markets as discussed in section 9.1.4.1.1. For the exhaustive list of operational drivers, see appendix 16**.**

In conjunction with increased growth, we anticipate that Evolution slightly increases its EBITDA margin in 2022 and 2023 due to the limited cost base in relation to the low-labor cost expansion. We further assume that the company will maintain its profitability margin in the remaining years due to economies of scale where the growth in revenue is superior to the costs associated with the growth. We are still optimistic regarding the company's investment activities but chose to maintain the forecasted capital expenditure at the same level as in the base case.

Applying the assumptions results in an implied share price valuation of EUR 158 - corresponding to an upside of 26.4% from the closing price as of December 31st, 2021.

#### 9.1.6.2 Bear case

Contrary to the bull case, we have also identified multiple challenges, threats and weaknesses which can affect Evolution in a negative way and slow down the growth as well as halt the expansion plans.

- The company fails in successfully launching the pipeline of 88 games
- Internet access and stability as well as mobile gambling adoption does not increase as much as expected in high growth regions such as Asia and Latin America
- Previously unregulated markets impose regulations which limits Evolution's potential total addressable market due to its relatively large unregulated revenue share
- Regulated markets impose stricter regulations such as the UK's feature limitation in 2021 or the newly proposed 2022 regulations regarding stake-limits and audit trails which may result Evolution's revenue growth as well as profitability
- Further platforms follow the lead of Twitch and limit the amount of gambling-oriented marketing and promotion activities
- Large currency fluctuations paired with Evolution's lack of financial hedging derivatives and an increased global presence may result in material currency losses
- Online gambling leading to addiction and mental health issues becomes more costly for the societies and thus special actions might be taken towards gambling operators, eventually harming Evolution's revenue and profitability
- End users utilizing VPNs to access Evolution's games from illegal regions, which could result in fines or potentially lead to withdrawal of licenses in select markets
- The requirement of retaining talent due to increased competitive rivalry results in increased personnel costs
- The overall economy moves into a recessive state effectively decreasing the demand for online gambling

- Failure to comply with AML and KYC requirements may result in financial losses related to fines in addition to a tarnished reputation of the company
- Evolution is not able to maintain its largest customers which could lead to severe implications for the group as the five largest customers accounted for 22.0% in 2021 whilst the single largest accounted for 11.0%
- The proposed tax legislation in Malta is enforced, increasing the group's tax rate significantly

To account for the scenarios presented above, we assume a lower growth rate for each year and for each region throughout the forecast period which is incorporated in the sales driven value drivers. USA and Asia are still expected to be the primary drivers of the group, albeit growing at a slower rate. The UK is expected to decrease to the global online gambling growth rate of 11.5%, whilst Europe and Nordics are expected to effectively half their growth rates from the base case scenario. In conjunction with the decreased growth, we anticipate that Evolution's EBITDA margin will decrease in each period due to intrusive regulations and talent retention initiatives. The assumed increase in effective tax rate will further have a direct implication on the company's free cash flow. Additionally, we expect that the investment activity will not be quite as extensive in an attempt of the company to retain short-term shareholder value and thus reduce the level of capital expenditures. See appendix 17.

Applying the assumptions results in an implied share price valuation of EUR 85 - corresponding to a downside of 31.8% from the closing price as of December 31st, 2021.

## 9.2 Multiples introduction

The listed peer and precedent transactions valuation is focused primarily on the enterprise multiples EV/EBITDA and EV/SALES. We will not analyze equity-based multiples such as the P/E ratio as such a metric does not consider the companies' capital structure (Oakley, 2017). As explained by Damodaran (2006), a sales multiple is more appealing to utilize when analyzing a non-profitable, high growth company, as applying a negative EBITDA will generate a negative multiple. Our valuation will be primarily based on the companies EBITDA multiples rather than their Sales. The primary reason for this is since the EBITDA reflects the value which is attributable to the stakeholders of the company, both equity and debt and could further be considered as a proxy for a company's

cash flow. Of course, this would entail that a company's EV/Sales multiple is not an appropriate valuation metric but rather is rather an indirect consequence of the valuation that the EV/EBITDA implies. For a company such as Evolution which has an incredibly high EBITDA-margin, the discrepancy between the EV/EBITDA and EV/Sales will be smaller, resulting in an inflated EV/Sales to a peer which has a similar EBITDA but a lower EBITDA margin. In the comparable and precedent transactions valuation we will thus primarily focus on the EV/EBITDA implied valuation, however, the EV/Sales multiples will be used as a complement with the aforementioned discussion in mind.

Additionally, as mentioned in section 7.1.2.1, since Evolution and other Nordic and European peers follows the IFRS framework, a straight comparison using the EBITDA to US-based peers that follow GAAP, does not consider the accounting differences that will affect the valuation. Where a US-based peer may expense their development costs which decreases the EBITDA, an IFRS-based company will instead capitalize it which will not affect the EBITDA (Bogle, 2022). For this reason, will also conduct a multiples analysis using the EV/EBIT. The comparison does not fully account for the difference in accounting principles, however as the EBIT incorporates the amortization of capitalized development, it provides for an improved comparability.

The adjustments of earnouts from section 9.1.4.9 have further been incorporated when deriving the share price from the implied enterprise value.

### 9.2.1 Listed peers

As mentioned in the introductory portion of the valuation segment, a comparable method of listed peers would be conducted, commonly referred to as multiple valuation. In contrast to the DCF, the multiples approach is not entirely based on the constructor's own assumptions but rather the estimated development of the target company's peers. The analytical portion of this method is thus highly reliant on the selection of peers. Plenborg and Pimentel (2016) argue that there are two primary schools of thought regarding this selection. The first being that the selected peers should be active within the same industry (Alford, 1992; Cheng and McNamara, 2000), with the second being that the selected peers should display similar fundamentals regarding growth, profitability, and risk (Dittmann and Weiner, 2005; Knudsen et al., 2017).

For our selection we adopted both schools of thought, which resulted in a wide group of peers. iGaming Suppliers, iGaming Operators, iGaming Affiliates acts as our primary industrial peers whilst Video Game actors acts as a supplementary industry vertical due to the reasons mentioned in section 7.2 in addition to their comparatively similar margins. Nordic B2B software providers were also included due to their operational similarities, granted that they display somewhat similar fundamentals to that of Evolution. Namely either high growth or above average profitability or preferably a combination of the two. As defined by OECD (2007), all enterprises with an average annualized growth greater than 20.0% per annum over a three-year period are to be considered a high growth company. Regarding profitability, CSI Market reported that the average EBITDA margin of companies within the software and programming industry was roughly 26.2% as of 2021, which will act as a reference point (CSIMarket, 2021a). For exhaustive list of selected peers, see appendix 18.

**Table 32: Listed peers multiples**

| Multiples | EV/Sales | | EV/EBITDA | | EV/EBIT | |
|---|---|---|---|---|---|---|
| | FY22 | FY23 | FY22 | FY23 | FY22 | FY23 |
| DCF Valuation | 17,0x | 12,0x | 27,0x | 18,0x | 29,3x | 20,0x |
| iGaming | 2,6x | 2,3x | 10,5x | 8,4x | 15,1x | 11,7x |
| Video Games | 4,1x | 3,6x | 13,3x | 10,9x | 15,7x | 12,7x |
| Nordic B2B Software | 5,9x | 5,2x | 19,9x | 16,7x | 25,8x | 23,5x |
| **Average** | **4,2x** | **3,7x** | **14,6x** | **12,0x** | **18,9x** | **16,0x** |
| Evolution financial base | 1 634 | 2 371 | 1 046 | 1 529 | 960 | 1 409 |
| Enterprise value | 6 861 | 8 773 | 15 229 | 18 352 | 18 104 | 22 494 |
| **Share price** | **32,6** | **41,5** | **71,6** | **86,1** | **84,9** | **105,3** |

*Source: S&P Capital IQ, authors estimates*

Compiled by authors

Observing the multiples as presented in table 32 one could quite rashly conclude that Evolution is overpriced and trading at a significant premium when compared to its peers, especially when observing the EV/Sales. The implied share price more than doubles when instead observing the EV/EBITDA and EV/EBIT and falls close to the value of our bear case DCF. The discussion regarding companies primarily being valued on their profitability in section 9.2 is thus further

validated. However, if the iGaming peers' multiples are taken at face value, this would imply that the company should trade at a significantly lower share price than our implied DCF valuation.

The video game and B2B software peers trade significantly higher than the iGaming peers, but still below our implied DCF valuation with an exception to the Nordic B2B Software peers when measured by the EV/EBIT in FY23. This is since we model for a significantly higher EBIT growth in absolute terms (46.5%) whilst the peers within this group are expected to reach an average EBIT growth of 9.8%. In total, the multiples indicate a valuation in the range of EUR 33-105.

To further analyze the discrepancy, we consider whether there is a substantial difference in Evolution's and the peers' financial prospects, both historically and in the future, as presented in table 33. First thing to note is that when observing the iGaming peers, the average CAGR for the period FY18-FY21 is 26.1% compared to Evolution's growth rate of 50.7%. A similar pattern is visible in the profitability, as the peers held an average EBITDA margin of 24.6% in the same period compared to Evolution's average of 55.5%. See appendix 19 for extensive calculations.

**Table 33: Revenue growth and profitability among peer groups**

| Financial performance | Sales CAGR | | EBITDA margin | | EBIT margin | |
|---|---|---|---|---|---|---|
| | FY18-FY21 | FY20-FY23 | FY18-FY21 | FY20-FY23 | FY18-FY21 | FY20-FY23 |
| Evolution | 50,7% | 61,7% | 55,5% | 64,1% | 48,5% | 58,2% |
| | | | | | | |
| iGaming | 26,1% | 23,1% | 24,6% | 26,1% | 17,4% | 17,6% |
| Video Games | 23,6% | 20,0% | 23,1% | 30,3% | 19,1% | 25,3% |
| Nordic B2B Software | 38,8% | 28,0% | 17,7% | 25,6% | 16,5% | 18,0% |

*Source: S&P Capital IQ, authors estimates*

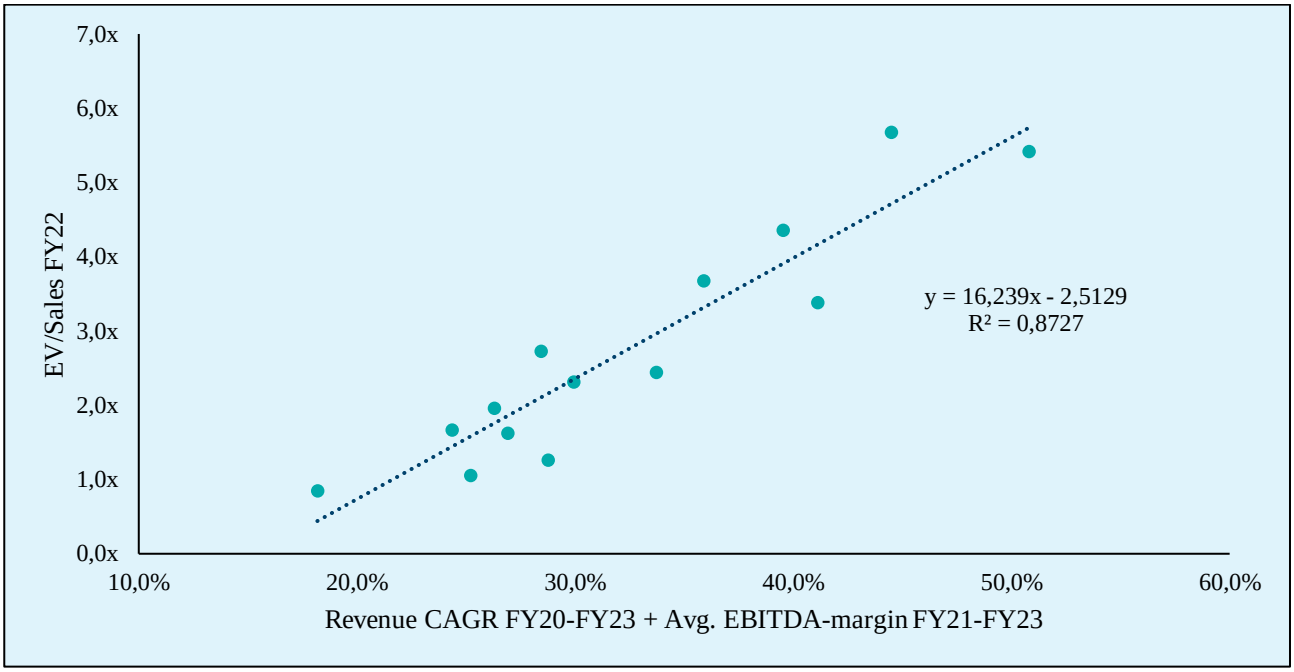
Compiled by authors

In fact, a similar conclusion could be made across all peer groups, as the historical and forecasted growth rates and profitability margins of Evolution far exceeds its peers. However, simply stating that Evolution is outperforming its selected peers financially may not warrant its multiple premia to a rational extent.

### 9.2.2 Multiples regression analysis

To analyze whether Evolution's superior financial performance warrants its significant premium, we compile key performance measures across all the selected peer groups, namely the respective companies' "G+M" which is the sum of the company's expected revenue growth for FY20-FY23 and its average EBITDA margin for the FY21-F23. The reason that the revenue and EBITDA period is different is since we want the regression to reflect at least one actual measurement period. Although forward looking multiples are more accurate than historical according to Schreiner and Spremann (2007) it is likely that a company's historical performance will influence how believable the investors deem the estimates to be. These metrics are then regressed on the respective companies' EV/Sales multiple in 2022. A similar regression is conducted, however when instead observing the individual companies' EBITDA growth in FY20-FY23 and their EV/EBITDA multiple in 2022. The rationale is to find to what extent a company's expected growth rate and profitability affects said companies' multiples valuation. Clearly, the regression must prove significance which will be measured by the R-squared. Simply observing the R-squared is not an indication of the quality of the entire model, however it is commonly used as a measure for how well the regression model explains observed data (Stock and Watson, 2020). No US-based companies have been included in the regressions such that all peers follow the IFRS framework and thus the EBITDA can be used without further implications. See appendix 20 for included peers and their respective G+M and EV/Sales 2022.

**Graph 7: Listed peers 'G+M' regression analysis**



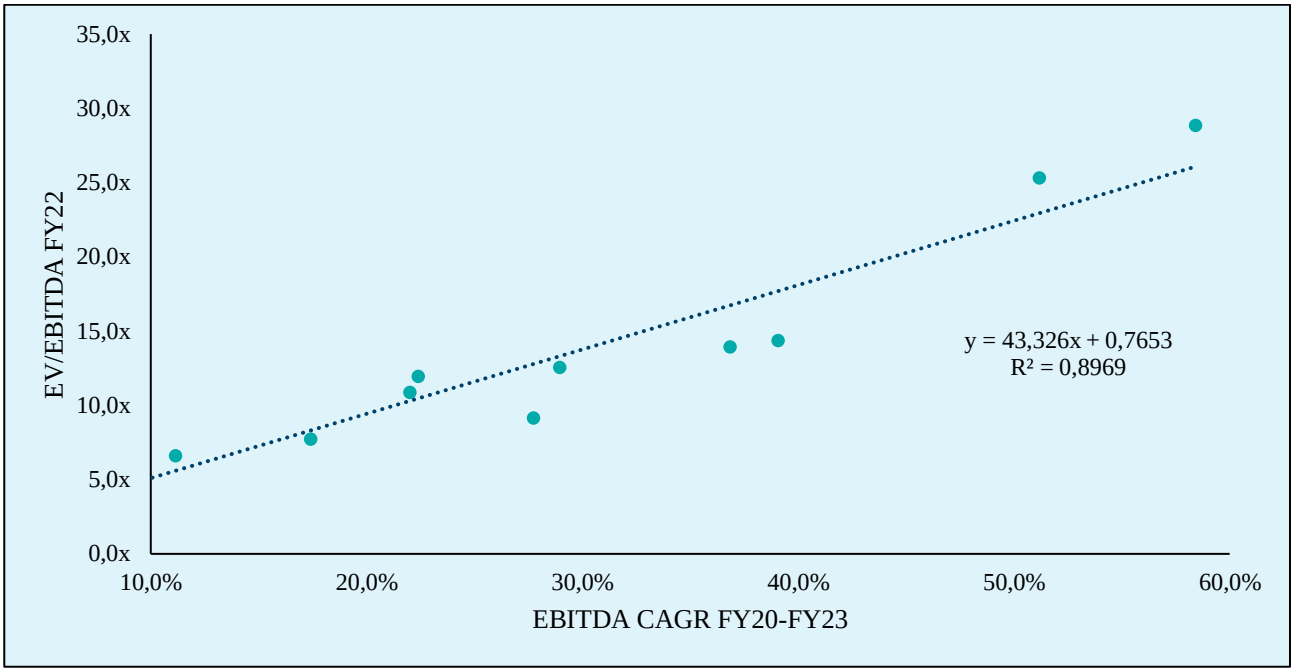
*Source: S&P Capital IQ*

Compiled by authors

From the regression on peers across all groups with their G+M as the explanatory variable and their EV/Sales 2022 multiple as the independent variable, after having removed outliers, an R-squared of 0.87 is achieved. By applying the linear relationship model (namely the slope and intercept of the trendline) on the G+M of Evolution, which according to our forecasts equals 127.0% we can thus derive the implied EV/Sales multiple of Evolution to 18.1x which entails an enterprise valuation of EUR 29.6bn and a share price of EUR 138**.**

To capture the aspect of profitability growth, a regression on all peer's EBITDA growth for 2020-2023 was conducted on their respective EV/EBITDA 2022. Once again, no US-based peers are included. See appendix 21 for included peers and their respective EBITDA growth and EV/EBITDA 2022.

**Graph 8: Listed peers EBITDA growth regression analysis**




*Source: S&P Capital IQ*

Compiled by authors

From this an R-squared of 0.9 was achieved, and by applying the linear relationship coefficient and slope on Evolution's expected EBITDA growth rate for the same period of 66.4%, we arrive at an

EV/EBITDA multiple of 29.5x, implying an enterprise valuation of EUR 30.8bn and a corresponding share price of EUR 144**.**

We are unable to derive a similar relationship in respect to the EV/EBIT 2022 and EBIT growth 2020-2023 whilst maintaining a respectable sample pool. As the EV/EBIT allows for improved comparability to peers in the US, a market in which we expect Evolution to focus its efforts, the multiple as displayed in table 32 will instead be considered.

To summarize, when observing how Evolution is trading against its peers solely based on the multiples as displayed in table 32 one could rationalize that the DCF valuation implies a significant premium, which may not be reasonable due to the significant discrepancy to the peers. However, as stated in section 9, the aspects of growth and profitability must be taken into consideration to properly interpret and analyze the multiples. When applying the forecasted financial performance of Evolution in terms of revenue growth and profitability on the linear relationship of the listed peers' multiples and financial prospects, the implied multiples increase significantly and validates our DCF valuation.

### 9.2.3 Precedent transactions

The precedent transaction method is built on the basis that past transactions within a similar segment is an applicable indication of the target company's value. Whilst the comparable multiples method is derived based on how the entire stock market values a company, the precedent transaction multiples represent what strategic or financial buyers such as private equity funds, are willing to pay for said company. Usually, a control premium is incorporated in a transaction multiple to incentivize the shareholders or owners to accept the offer (Rosenbaum and Pearl, 2020).

For the selection of acquisitions, we observe recent transactions within the iGaming segment. Just like for the relative valuation, it is optimal to find transactions where the target company is of similar size and has similar industry classification as well as financial characteristics (Rosenbaum and Pearl, 2020). It is further paramount to look at the most recent transactions since they were completed under similar market conditions and would generate the most accurate indication of valuation (Rosenbaum and Pearl, 2020). Therefore, we have searched for transactions within the online gambling industry that have been completed during the past three years which aligns well with the arguments. A clear limitation regarding the precedent transactions analysis, is that the outcome of the result is highly

dependent on the amount of information available regarding transaction values and financials of the target company. With that taken into consideration, we identified a total of five strategic transactions within the online gambling industry that we consider comparable, as presented in table 34.

**Table 34: Precedent transactions, EURm**

| Buyer | Target | Purchase consideration | Announcement date | Implied EV | Sales | EBITDA | EV/Sales | EV/EBITDA |
|---|---|---|---|---|---|---|---|---|
| Kindred | Relax gaming | Cash | July 2021 | 320 | 25 | 10 | 12,8x | 32,0x |
| Evolution | Big Time Gaming | Both | April 2021 | 450 | 33 | 29 | 13,6x | 15,5x |
| Caesars Entertainment | William Hill | Cash | September 2020 | 3 614 | 1 461 | 79 | 2,5x | 45,6x |
| Evolution | Netent | Both | June 2020 | 2 045 | 198 | 80 | 10,3x | 25,7x |
| Flutter Entertainment | Stars Group | Equity | October 2019 | 9 723 | 2 253 | 593 | 4,3x | 16,4x |
| | | | | | | **Average** | **8,7x** | **27,0x** |
| | | | | | | **Median** | **10,3x** | **25,7x** |
| | | | | | | **RSD** | **57,9** | **46,0** |

*Source: S&P Capital IQ, Kindred (2021b), Evolution (2021b), Caesars Entertainment (2020), Cision (2020), Seal (2019)*

Compiled by authors

The implied enterprise values and financials are retrieved from company press releases and news articles covering the transactions. In the event of undisclosed financials, these are retrieved from S&P Capital IQ (n.d.). The enterprise values are in turn applied on the financial, namely the latest available, and most applicable financials of the target companies to derive the implied LTM or LFY multiples. As the valuation takes place as of December 31st, 2021, this implies that multiples should be applied on the FY21 financial base of Evolution as these are the latest available, and actual financials of the company. This is a clear drawback of precedent transactions analysis, as highlighted by Rosenbaum and Pearl (2020), since the information conveyed is based on historical financial performance, whilst the acquiring company may base the valuation on future financial outlook.

First thing to note is that there is larger discrepancy in the EV/Sales than the EV/EBITDA as measured by the relative standard deviation, RSD in table 34, which is derived through formula 9.

**Formula 9: Relative standard deviation**

$$RSD = \frac{Standard\ deviation\ of\ sample}{Average\ of\ sample}$$

This is line with the previously held discussions regarding the EV/EBITDA being the primary multiple for the basis of valuation. When compared to the list iGaming peer multiples, the precedent

transactions imply significantly higher multiples. This is however reasonable due to the previously mentioned control premium paired with the fact that strategic buyers are willing to exceed current trading multiples since the transaction can result in potential synergies related to cost-cutting, growth, and financial advantages (Rosenbaum and Pearl, 2020). Rosenbaum and Pearl (2020) further states that the purchase consideration will also influence the valuation, where an equity-based or cash-and-equity based acquisition will result in a lower valuation than of a pure cash-based acquisition. This is reasonable as an equity-based transaction allows the sellers to gain equity-interest in the buying company and thus partake in the potential value gain realized through the synergies. The thesis holds true in our selection, as the two highest EV/EBITDA multiples are displayed in relation to cash-based acquisitions.

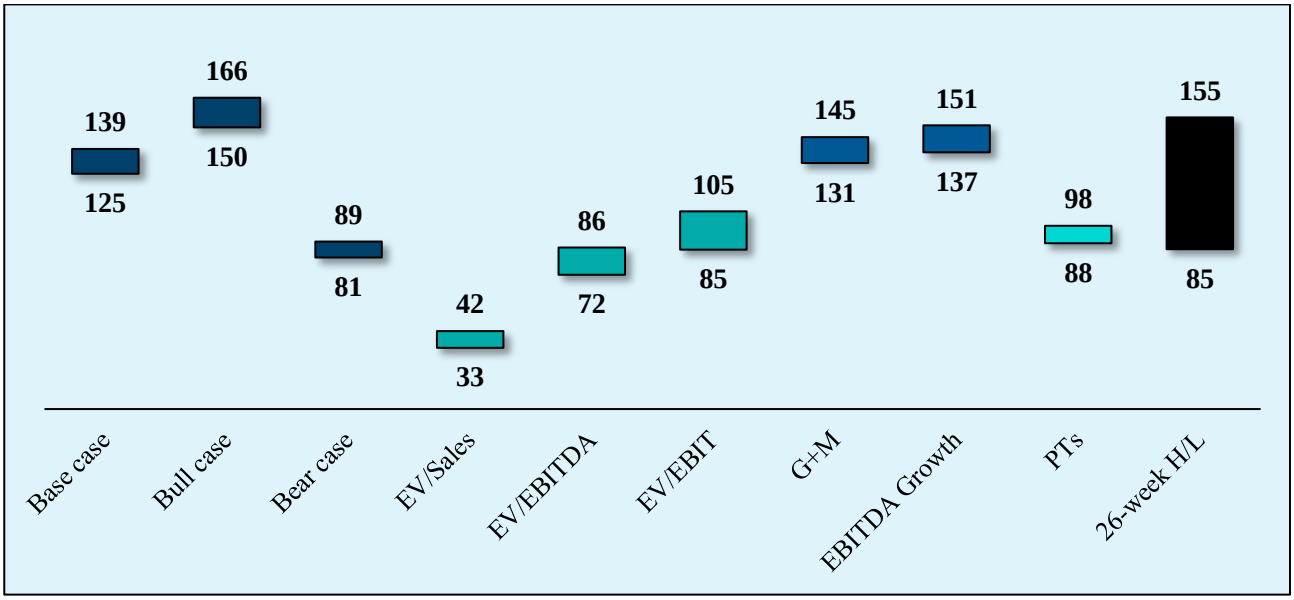
Further analysis regarding the target companies' growth and profitability development could be incorporated similar to section 9.2.1 and 9.2.2 but was excluded due to information limitations.

The EV/EBITDA multiples displayed in table 34, indicate that Evolution should be valued at roughly 27.0x EBITDA. Based on the company's FY21 EBITDA of EUR 735m this would imply an enterprise value of EUR 19.8bn and a corresponding share price of EUR 93.

# 10. Our findings

A summary of our valuation methods is presented in graph 9, where a standard error of +/- 5.0% is applied to gauge a broader scope of the value range. The trailing 6 months high and low share price of Evolution is further incorporated to sanity check our findings.

**Graph 9: Valuation summary Evolution**




*Source: Authors estimates*

Compiled by authors

Our base case DCF resulted in an implied share price of EUR 125-139, where the fair market price corresponded to the mid-point of EUR 132 whilst our DCF bull case resulted in the highest implied valuation of EUR 158, which is not surprising given the highly optimistic assumptions which were incorporated in the model. The asymmetrical spread between the DCF valuations further indicates that our assumptions result in a larger downside risk in the bear case than upside potential in the bull case.

The results from the listed peers' multiples analysis came out lower than our intrinsic valuation, especially when observing the EV/Sales. However, as discussed in section 9.2, the EV/Sales is generally not an optimal multiple to observe, especially if the target company is profitable. This argument is validated since the profitability-based multiples, namely EV/EBITDA and EV/EBIT, indicate valuations in line with our bear case DCF and the trailing 6 months share price, but lower

than our base case DCF. This could be a result of overly optimistic assumptions in our forecasts, however, a major drawback with the listed peer multiples analysis is that for the analysis to be perfect, the peers must be close to identical to the target company. Although the peers display similar characteristics to Evolution, none of them have displayed growth and profitability at the same level as Evolution historically and are further not expected to do so in FY22 and FY23. Simply observing the multiples standalone is thus not sufficient to make a fair assumption, as they should rather be considered as a reflection of the companies historical and expected growth and profitability.

The G+M and EBITDA regression encapsulates this relationship, resulting in valuations that falls within the range of both our base-, and bull-case DCF. This may seem obvious as the same forecasts have been incorporated in these models, however the key take-away is the implication that the market values the forecasted level of growth and profitability similarly, which provides validity to our assumptions.

The precedent transactions analysis indicated a share price below our base case DCF. The method however entails similar shortcomings to that of the listed peers' multiples approach as the outcome is dependent on the level of comparability. The acquired companies displayed similarity to Evolution, either in size or profitability, but we were unable to identify a transaction where the target company possessed both characteristics. In theory, a regression model on the precedent transaction multiples against the targets historical or forecasted growth could be constructed but due to inadequate data, such an analysis would be inconclusive or misleading. Although the companies' expected future growth and profitability should be reflected in the multiples paid, such an assumption is not beyond doubt as we are unable to derive this relationship directly. Due to lack of directly comparable transactions and available information, the analysis is not entirely substantiated.

Based on the findings uncovered in the strategic and financial analysis, our DCF and regression valuation suggests that Evolution's share price of EUR 125 as of December 31st, 2021, is based on fundamentals. Although this implies a significant premium to its peers, the discrepancy is validated when considering the superior financial performance of the company.

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# 11. Conclusion

This thesis has aimed to analyze whether the share price of Evolution AB, the Swedish headquartered B2B company which provides online casino solutions, standing at EUR 125 as of December 31st, 2021 is based on fundamentals by applying various valuation methods including DCF models, listed peers' multiples, and regression analysis as well as precedent transaction analysis.

A thorough breakdown of the company's revenue model, product offering, customer portfolio, global presence, and ownership was conducted to properly grasp how the company operates within the online gambling industry. The online gambling industry was born in the late 1990's and has seen immense growth largely driven by technological advancements throughout the world. COVID-19 provided further growth opportunities as countries were forced into lockdowns, effectively increasing the demand for online leisure activities such as online gambling. Due to the inherent concerns and issues in relation to addiction and mental health, a large portion of the global market is heavily regulated or prohibited. However, several regions such as the US, Latin America and Asia are currently in the process of potentially incorporating state-wide or country-wide regulations which would allow for online gambling activities.

Evolution has seen significant and consistent growth both in terms of revenue and profitability since its inception and has further pursued strategic acquisitions to establish a market leading position, whilst maintaining a fully equity financed capital structure. The company has further managed to maintain a RoE higher than the cost of equity, effectively creating value to its shareholders.

The findings uncovered in the strategic and financial analysis were incorporated in the forecast of Evolution's free cash flow for the period FY22-FY26 to derive an implied fair value of the company. The model and the underlying assumptions were thoroughly assessed by incorporating sensitivity and scenario-based analysis and was further complemented by multiples, regression, and precedent transactions analysis. To sanity check our findings, the trailing six months high and low share price were incorporated which supported the conclusion that the share price of EUR 125 as of December 31st, 2021 is based on fundamentals.

# 12. Closing remarks and further research

When commencing the writing of this thesis in January of 2022, the valuation date was set to December 31st, 2021, where the decision was made not to consider any global or macro-economic events that occurred during the semester. Although such a limitation is a common procedure when performing a valuation as the conditions, prospects and outlook of a company could change on a daily basis, it is not common for the limitation to effectively disregard an on-going war.

As of February 24th, 2022, Russia invaded Ukraine which resulted in severe implications for the global economy as corporations and government inflicted severe sanctions against Russia. The invasion has further resulted in a surge in oil-, and commodity prices leading to an accelerated level of inflation which has not only resulted in increased living costs for private individuals, but also an increased cost for corporations. As of May 14th, 2022, the broad Swedish index fund OMXSPI has declined by 22.3% YTD.

There is still uncertainty regarding the outcome of the war and thereby it is hard to predict how it would impact Evolution. The company stated in their annual report that they have a hub in Ukraine with the focus on game development for slots, however, they do not have any offices nor customers based in Russia. Evolution further noted in its annual report that the financial implications from the war were expected to be negligible. However, as the invasion has since affected the global economy, it is likely to have a material impact on the company in FY22. For future research, one could thus analyze how the conflict has affected not only Evolution, but the entire online gambling industry.

Disregarding the political uncertainty, another aspect to be explored is whether Evolution could be subject to a leveraged buy-out. As uncovered in the financial analysis, the company experiences low levels of cyclicality, paired with having high level of profitability and minimal leverage, implying that Evolution could be a prime candidate for such a transaction (Rosenbaum and Pearl, 2020). Due to the sheer size of the company considering its market capitalization of roughly EUR 27bn as of December 31st, 2021, the potential buyer pool would be limited to some of the world largest private equity funds such as Accel-KKR, Blackstone and CVC Capital a.o., and the transaction would likely mark one of the largest LBOs in history (Gara, 2021).

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# Appendices

### Appendix 1: Evolution studios

| Studios worldwide | Establishment |
|---|---|
| Latvia | 2006 |
| Spain | 2014 |
| Malta | 2014 |
| Belgium | 2015 |
| Romania | 2016 |
| Canada | 2018 |
| Georgia | 2018 |
| USA - New Jersey | 2018 |
| USA - Pennsylvania | 2020 |
| Lithuania | 2020 |
| USA - Michigan | 2021 |
| **Armenia** | **2022** |
| **Spain - Madrid** | **2022** |
| **USA - Connecticut** | **2022** |

*Source: Evolution (2022a)*

Compiled by authors

### Appendix 2: Evolution shareholders

| Shareholder | Number of shares | Capital and votes |
|---|---|---|
| Capital Group | 32 765 814 | 15,7% |
| Österbahr Ventures AB | 23 043 180 | 10,7% |
| BlackRock | 11 030 414 | 5,1% |
| WCM Investment Mgm | 10 976 711 | 5,1% |
| Richard Livingstone | 10 062 647 | 4,7% |
| Vanguard | 4 870 641 | 2,3% |
| GQG Partners | 3 514 681 | 1,6% |
| Morgan Stanley Inv. | 3 430 648 | 1,6% |
| Avanza Pension | 3 331 705 | 1,5% |
| Norges Bank | 2 763 171 | 1,3% |
| Total, 10 largest shareholders | 106 789 612 | 49,6% |
| Other shareholders | 108 321 503 | 50,4% |
| GRAND TOTAL | 215 111 115 | 100% |

*Source: Evolution (2022a)*

Compiled by authors

**Appendix 3: Evolution consolidated income statement as reported**

| *Currency: EUR thousands* | FY18 | FY19 | FY20 | FY21 |
|---|---|---|---|---|
| Revenues - Live | 245 418 | 365 752 | 543 315 | 839 238 |
| Revenues- RNG | - | - | 17 819 | 229 539 |
| **Total Operating Revenues** | **245 418** | **365 752** | **561 134** | **1 068 777** |
| | | | | |
| Personnel Expenses | (97 674) | (126 419) | (133 752) | (207 165) |
| Depreciation, Amortisation and impairment | (18 197) | (25 476) | (32 513) | (80 646) |
| Other OPEX | (40 063) | (56 385) | (95 169) | (126 962) |
| **Total Opex** | **(155 934)** | **(208 280)** | **(261 434)** | **(414 773)** |
| | | | | |
| **Operating Profit** | **89 484** | **157 472** | **299 700** | **654 004** |
| | | | | |
| Financial Income | 13 | 45 | 47 | 1 317 |
| Financial Expense | (2) | (245) | (1 065) | (7 830) |
| **Profit before tax** | **89 495** | **157 272** | **298 682** | **647 491** |
| | | | | |
| Tax | (5 866) | (7 546) | (1 406) | (42 056) |
| **Profit for the year** | **83 629** | **149 726** | **297 276** | **605 435** |

*Source: Evolution (2022a; 2020b)*

Compiled by authors

## Appendix 4: Evolution consolidated balance sheet as reported

| *Currency: EUR thousands* | FY18 | FY19 | FY20 | FY21 |
|---|---|---|---|---|
| **Assets** | | | | |
| Goodwill | - | 12 485 | 1 834 333 | 2 188 482 |
| Other int assets | 21 344 | 23 743 | 723 187 | 757 250 |
| Land and buildings | 12 167 | 11 991 | 11 629 | 11 409 |
| rights of use assets | - | 19 419 | 44 104 | 54 313 |
| Other PP&E | 27 452 | 36 079 | 50 632 | 68 745 |
| Other non-current receivables | 952 | 1 118 | 3 302 | 11 096 |
| Deferred tax assets | 180 | 156 | 2 696 | 2 360 |
| **Total non-current assets** | **62 095** | **104 991** | **2 669 883** | **3 093 655** |
| | | | | |
| Accounts receivable | 47 622 | 66 457 | 120 481 | 200 700 |
| Current tax receivables | 41 042 | 69 810 | 137 735 | 142 320 |
| Other current receivables | 1 729 | 7 174 | 8 755 | 13 175 |
| Prepaid expenses & acc. Income | 3 218 | 3 208 | 10 583 | 31 785 |
| Cash and cash equiv | 84 951 | 182 520 | 221 675 | 421 432 |
| **Total current assets** | **178 562** | **329 169** | **499 229** | **809 412** |
| | | | | |
| **TOTAL ASSETS** | **240 657** | **434 160** | **3 169 112** | **3 903 067** |
| | | | | |
| ***Equity and liabilities*** | | | | |
| Share capital | 540 | 545 | 638 | 647 |
| Other capital contributed | 5 867 | 17 430 | 2 225 817 | 2 405 622 |
| Reserves | (108) | 99 | 37 548 | (18 286) |
| Retained earnings including profit for the year | 155 971 | 262 823 | 462 168 | 802 967 |
| **Total equity** | **162 270** | **280 897** | **2 726 171** | **3 190 950** |
| | | | | |
| Deferred tax liabilities | - | 69 | 36 666 | 58 816 |
| Non-current lease liabilities | - | 15 483 | 38 078 | 53 171 |
| Other non-current liabilities | 5 619 | - | - | 230 000 |
| **Total non-current liabilities** | **5 619** | **15 552** | **74 744** | **341 987** |
| | | | | |
| Accounts payable | 3 190 | 5 300 | 15 335 | 8 578 |
| Current liab to credit institution | 950 | 5 619 | - | - |
| Provisions | - | - | 11 377 | 2 253 |
| Current tax liabilities | 49 939 | 81 524 | 164 082 | 189 053 |
| Other current liabilities | 11 521 | 19 604 | 128 502 | 111 127 |
| current lease liabilities | - | 3 936 | 11 891 | 14 639 |
| Acc expenses and prepaid income | 7 168 | 21 728 | 37 010 | 44 480 |
| **Total current liabilities** | **72 768** | **137 711** | **368 197** | **370 130** |
| | | | | |
| **TOTAL EQUITY AND LIABILITIES** | **240 657** | **434 160** | **3 169 112** | **3 903 067** |

*Source: Evolution (2022a; 2020b)*

Compiled by authors

## Appendix 5: Evolution and peers net profit margin

| | Net income margin | | | |
|---|---|---|---|---|
| Company | FY2018 | FY2019 | FY2020 | FY2021 |
| **Evolution AB (publ)** | 34,0% | 40,9% | 50,7% | 56,6% |

| | Net income margin | | | |
|---|---|---|---|---|
| Company | FY2018 | FY2019 | FY2020 | FY2021 |
| **Flutter Entertainment plc** | 10,8% | 6,7% | 0,9% | -6,9% |
| **Entain Plc** | -2,1% | -4,3% | 1,6% | 6,5% |
| **La Française des Jeux Société anonyr** | 9,5% | 6,8% | 11,1% | 13,3% |
| **Tabcorp Holdings Limited** | 0,8% | 6,6% | -16,7% | 4,8% |
| **Gaming Innovation Group Inc.** | n.m. | n.m. | n.m. | -0,1% |
| **Kambi Group plc** | 12,9% | 11,3% | 20,4% | 28,9% |
| **Aspire Global plc** | 15,8% | 0,3% | 8,4% | 37,9% |
| **Playtech plc** | 10,1% | -1,4% | n.m. | 58,2% |
| **Light & Wonder, Inc.** | -10,5% | -5,4% | n.m. | 17,4% |
| **International Game Technology PLC** | -0,5% | -0,5% | n.m. | 11,9% |
| **GAN Limited** | n.m. | 6,7% | n.m. | -23,5% |
| **Betsson AB** | 19,9% | 15,2% | 15,8% | 16,3% |
| **Kindred Group plc** | 14,5% | 6,2% | 14,6% | 23,5% |
| **LeoVegas AB (publ)** | 13,2% | 2,9% | 4,8% | 2,8% |
| **888 Holdings plc** | 17,5% | 7,4% | 1,3% | 7,1% |
| **DraftKings Holdings Inc.** | n.m. | n.m. | n.m. | n.m. |
| **Penn National Gaming, Inc.** | 2,6% | 0,8% | -18,7% | 7,2% |
| **Better Collective A/S** | 13,5% | 20,7% | 24,0% | 9,6% |
| **Raketech Group Holding PLC** | 18,4% | 30,3% | 19,1% | 18,1% |
| **Catena Media plc** | 29,4% | -10,2% | 11,8% | -5,2% |
| **Total / average** | **10,3%** | **5,6%** | **7,0%** | **12,0%** |

| | Net income margin | | | |
|---|---|---|---|---|
| Company | FY2018 | FY2019 | FY2020 | FY2021 |
| **Zynga Inc.** | 1,7% | 3,2% | -21,7% | -3,7% |
| **Electronic Arts Inc.** | 20,3% | 20,6% | 54,9% | 13,8% |
| **Take-Two Interactive Software, Inc.** | 9,7% | 12,5% | 13,1% | 17,2% |
| **Activision Blizzard, Inc.** | 24,6% | 23,2% | 27,2% | 30,9% |
| **Stillfront Group AB (publ)** | 10,8% | 15,6% | 13,4% | 10,8% |
| **Embracer Group AB (publ)** | 6,6% | 5,7% | 4,7% | 3,2% |
| **Logitech International S.A.** | 8,1% | 9,2% | 15,1% | 19,5% |
| **Total / average** | **11,7%** | **12,9%** | **15,2%** | **13,1%** |

| | Net income margin | | | |
|---|---|---|---|---|
| Company | FY2018 | FY2019 | FY2020 | FY2021 |
| **Sinch AB (publ)** | 4,5% | 5,4% | 5,5% | 5,8% |
| **SimCorp A/S** | 20,1% | 21,3% | 19,4% | 22,5% |
| **Hexagon AB (publ)** | 19,4% | 18,0% | 16,4% | 18,5% |
| **Volue ASA** | 0,1% | 0,9% | 9,2% | 2,8% |
| **Vitec Software Group AB (publ)** | 8,5% | 7,9% | 10,9% | 13,1% |
| **LINK Mobility Group Holding ASA** | n.m. | -8,1% | -9,3% | -1,8% |
| **Ørn Software Holding AS** | n.m. | -3,7% | -8,6% | -20,1% |
| **Mercell Holding ASA** | -7,2% | -36,7% | n.m. | -16,0% |
| **SmartCraft ASA** | 0,8% | -2,1% | 20,0% | 13,6% |
| **IAR Systems Group AB (publ)** | 22,7% | 20,0% | 16,0% | -18,9% |
| **Tecnotree Oyj** | -1,2% | 16,4% | 25,7% | 28,3% |
| **Total / average** | **7,5%** | **3,6%** | **10,5%** | **4,3%** |

*Source: S&P Capital IQ*

Compiled by authors

# Appendix 6: Evolution and peers asset turnover ratio

| | Sales | | | | Total assets | | | | Asset turnover ratio | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| Company | FY2018 | FY2019 | FY2020 | FY2021 | FY2018 | FY2019 | FY2020 | FY2021 | FY2018 | FY2019 | FY2020 | FY2021 |
| **Evolution AB (publ)** | 245 | 366 | 561 | 1 069 | 241 | 434 | 3169 | 3903 | 1,02 | 0,84 | 0,18 | 0,27 |

| | Sales | | | | Total assets | | | | Asset turnover ratio | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| Company | FY2018 | FY2019 | FY2020 | FY2021 | FY2018 | FY2019 | FY2020 | FY2021 | FY2018 | FY2019 | FY2020 | FY2021 |
| **Flutter Entertainment plc** | 2 085 | 2 526 | 4 926 | 7 134 | 5765 | 6374 | 18966 | 19973 | 0,36 | 0,40 | 0,26 | 0,36 |
| **Entain Plc** | 3 267 | 4 223 | 3 975 | 4 571 | 8401 | 8248 | 8114 | 8634 | 0,39 | 0,51 | 0,49 | 0,53 |
| **La Française des Jeux Société anonyr** | 1 803 | 1 956 | 1 920 | 2 215 | 2207 | 2856 | 2898 | 3188 | 0,82 | 0,68 | 0,66 | 0,69 |
| **Tabcorp Holdings Limited** | 2 382 | 3 382 | 3 205 | 3 531 | 8204 | 8394 | 7617 | 7505 | 0,29 | 0,40 | 0,42 | 0,47 |
| **Gaming Innovation Group Inc.** | 52 | 44 | 63 | 71 | 190 | 135 | 93 | 88 | 0,27 | 0,33 | 0,68 | 0,81 |
| **Kambi Group plc** | 76 | 92 | 118 | 161 | 78 | 100 | 137 | 197 | 0,98 | 0,92 | 0,86 | 0,82 |
| **Aspire Global plc** | 102 | 128 | 157 | 217 | 98 | 101 | 144 | 214 | 1,04 | 1,26 | 1,09 | 1,01 |
| **Playtech plc** | 1 225 | 1 441 | 1 078 | 1 160 | 3094 | 3098 | 3064 | 3652 | 0,40 | 0,47 | 0,35 | 0,32 |
| **Light & Wonder, Inc.** | 2 937 | 2 128 | 1 389 | 1 874 | 6741 | 6959 | 6527 | 6932 | 0,44 | 0,31 | 0,21 | 0,27 |
| **International Game Technology PLC** | 3 477 | 3 593 | 2 547 | 3 573 | 11921 | 12159 | 10621 | 9955 | 0,29 | 0,30 | 0,24 | 0,36 |
| **GAN Limited** | 12 | 27 | 29 | 114 | 20 | 23 | 142 | 229 | 0,62 | 1,14 | 0,20 | 0,50 |
| **Betsson AB** | 533 | 493 | 636 | 644 | 734 | 734 | 823 | 892 | 0,73 | 0,67 | 0,77 | 0,72 |
| **Kindred Group plc** | 1 010 | 1 077 | 1 261 | 1 496 | 841 | 939 | 1108 | 1450 | 1,20 | 1,15 | 1,14 | 1,03 |
| **LeoVegas AB (publ)** | 328 | 356 | 387 | 393 | 279 | 262 | 249 | 257 | 1,17 | 1,36 | 1,55 | 1,53 |
| **888 Holdings plc** | 472 | 499 | 695 | 854 | 332 | 386 | 398 | 475 | 1,42 | 1,29 | 1,75 | 1,80 |
| **DraftKings Holdings Inc.** | 198 | 288 | 502 | 1 114 | 261 | 295 | 2812 | 3578 | 0,76 | 0,98 | 0,18 | 0,31 |
| **Penn National Gaming, Inc.** | 3 084 | 4 724 | 2 926 | 5 135 | 9573 | 12649 | 11991 | 14836 | 0,32 | 0,37 | 0,24 | 0,35 |
| **Better Collective A/S** | 40 | 67 | 91 | 181 | 149 | 230 | 315 | 597 | 0,27 | 0,29 | 0,29 | 0,30 |
| **Raketech Group Holding PLC** | 26 | 24 | 29 | 39 | 78 | 82 | 91 | 137 | 0,33 | 0,29 | 0,32 | 0,29 |
| **Catena Media plc** | 105 | 103 | 106 | 139 | 379 | 333 | 341 | 366 | 0,28 | 0,31 | 0,31 | 0,38 |
| **Total / average** | | | | | | | | | **0,62** | **0,67** | **0,60** | **0,64** |

| | Sales | | | | Total assets | | | | Asset turnover ratio | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| Company | FY2018 | FY2019 | FY2020 | FY2021 | FY2018 | FY2019 | FY2020 | FY2021 | FY2018 | FY2019 | FY2020 | FY2021 |
| **Zynga Inc.** | 792 | 1 178 | 1 614 | 2 448 | 1875 | 3262 | 5074 | 5591 | 0,42 | 0,36 | 0,32 | 0,44 |
| **Electronic Arts Inc.** | 4 180 | 4 410 | 5 039 | 5 165 | 6968 | 7981 | 10112 | 11321 | 0,60 | 0,55 | 0,50 | 0,46 |
| **Take-Two Interactive Software, Inc.** | 1 455 | 2 378 | 2 811 | 2 920 | 3034 | 3781 | 4503 | 5136 | 0,48 | 0,63 | 0,62 | 0,57 |
| **Activision Blizzard, Inc.** | 6 551 | 5 782 | 6 610 | 7 673 | 15625 | 17684 | 18892 | 22032 | 0,42 | 0,33 | 0,35 | 0,35 |
| **Stillfront Group AB (publ)** | 142 | 207 | 431 | 530 | 255 | 387 | 1231 | 1950 | 0,56 | 0,54 | 0,35 | 0,27 |
| **Embracer Group AB (publ)** | 441 | 532 | 555 | 876 | 629 | 827 | 974 | 3297 | 0,70 | 0,64 | 0,57 | 0,27 |
| **Logitech International S.A.** | 2 084 | 2 484 | 2 708 | 4 142 | 1415 | 1803 | 2151 | 3529 | 1,47 | 1,38 | 1,26 | 1,17 |
| **Total / average** | | | | | | | | | **0,66** | **0,63** | **0,57** | **0,50** |

| | Sales | | | | Total assets | | | | Asset turnover ratio | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| Company | FY2018 | FY2019 | FY2020 | FY2021 | FY2018 | FY2019 | FY2020 | FY2021 | FY2018 | FY2019 | FY2020 | FY2021 |
| **Sinch AB (publ)** | 394 | 484 | 806 | 1 526 | 356 | 476 | 1158 | 5551 | 1,11 | 1,02 | 0,70 | 0,27 |
| **SimCorp A/S** | 383 | 455 | 456 | 488 | 270 | 438 | 471 | 526 | 1,42 | 1,04 | 0,97 | 0,93 |
| **Hexagon AB (publ)** | 3 761 | 3 908 | 3 764 | 4 332 | 9684 | 10601 | 10704 | 14095 | 0,39 | 0,37 | 0,35 | 0,31 |
| **Volue ASA** | 82 | 81 | 85 | 100 | 108 | 114 | 140 | 174 | 0,76 | 0,71 | 0,61 | 0,57 |
| **Vitec Software Group AB (publ)** | 112 | 124 | 147 | 153 | 165 | 180 | 220 | 365 | 0,68 | 0,69 | 0,67 | 0,42 |
| **LINK Mobility Group Holding ASA** | 85 | 293 | 338 | 434 | 550 | 615 | 734 | 1052 | 0,15 | 0,48 | 0,46 | 0,41 |
| **Ørn Software Holding AS** | 0 | 7 | 8 | 19 | 0 | 7 | 27 | 98 | n.m. | 1,00 | 0,29 | 0,20 |
| **Mercell Holding ASA** | 11 | 16 | 30 | 71 | 9 | 46 | 332 | 448 | 1,12 | 0,34 | 0,09 | 0,16 |
| **SmartCraft ASA** | 8 | 16 | 19 | 27 | 42 | 48 | 66 | 88 | 0,18 | 0,33 | 0,28 | 0,30 |
| **IAR Systems Group AB (publ)** | 38 | 39 | 37 | 35 | 71 | 79 | 83 | 79 | 0,53 | 0,49 | 0,45 | 0,44 |
| **Tecnotree Oyj** | 42 | 47 | 53 | 65 | 29 | 37 | 51 | 79 | 1,47 | 1,28 | 1,04 | 0,81 |
| **Total / average** | | | | | | | | | **0,78** | **0,70** | **0,54** | **0,44** |

*Source: S&P Capital IQ*

Compiled by authors

# Appendix 7: Evolution and peers equity multiplier

| | Total assets | | | | Total equity | | | | Equity multiplier | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| Company | FY2018 | FY2019 | FY2020 | FY2021 | FY2018 | FY2019 | FY2020 | FY2021 | FY2018 | FY2019 | FY2020 | FY2021 |
| **Evolution AB (publ)** | 241 | 434 | 3169 | 3903 | 162,27 | 280,897 | 2726,171 | 3190,95 | 1,48 | 1,55 | 1,16 | 1,22 |

| | Total assets | | | | Total equity | | | | Equity multiplier | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| Company | FY2018 | FY2019 | FY2020 | FY2021 | FY2018 | FY2019 | FY2020 | FY2021 | FY2018 | FY2019 | FY2020 | FY2021 |
| **Flutter Entertainment plc** | 5765 | 6374 | 18966 | 19973 | 4688 | 4945 | 12273 | 12250 | 1,23 | 1,29 | 1,55 | 1,63 |
| **Entain Plc** | 8401 | 8248 | 8114 | 8634 | 3883 | 3370 | 3439 | 3772 | 2,16 | 2,45 | 2,36 | 2,29 |
| **La Française des Jeux Société anonyn** | 2207 | 2856 | 2898 | 3188 | 564 | 569 | 702 | 829 | 3,91 | 5,02 | 4,13 | 3,85 |
| **Tabcorp Holdings Limited** | 8204 | 8394 | 7617 | 7505 | 4589 | 4426 | 3698 | 4234 | 1,79 | 1,90 | 2,06 | 1,77 |
| **Gaming Innovation Group Inc.** | 190 | 135 | 93 | 88 | 88 | 21 | 4 | 12 | 2,16 | 6,46 | n.m. | 7,35 |
| **Kambi Group plc** | 78 | 100 | 137 | 197 | 58 | 72 | 98 | 135 | 1,35 | 1,40 | 1,39 | 1,45 |
| **Aspire Global plc** | 98 | 101 | 144 | 214 | 38 | 34 | 48 | 130 | 2,55 | 2,96 | 3,01 | 1,64 |
| **Playtech plc** | 3094 | 3098 | 3064 | 3652 | 1351 | 1222 | 900 | 1581 | 2,29 | 2,53 | 3,41 | 2,31 |
| **Light & Wonder, Inc.** | 6741 | 6959 | 6527 | 6932 | -2151 | -1878 | -2063 | -1852 | n.m. | n.m. | n.m. | n.m. |
| **International Game Technology PLC** | 11921 | 12159 | 10621 | 9955 | 2404 | 2214 | 1276 | 1733 | 4,96 | 5,49 | 8,32 | 5,74 |
| **GAN Limited** | 20 | 23 | 142 | 229 | 10 | 13 | 127 | 197 | 1,89 | 1,73 | 1,11 | 1,16 |
| **Betsson AB** | 734 | 734 | 823 | 892 | 451 | 467 | 504 | 566 | 1,63 | 1,57 | 1,63 | 1,58 |
| **Kindred Group plc** | 841 | 939 | 1108 | 1450 | 325 | 276 | 460 | 673 | 2,59 | 3,40 | 2,41 | 2,15 |
| **LeoVegas AB (publ)** | 279 | 262 | 249 | 257 | 100 | 98 | 98 | 84 | 2,80 | 2,67 | 2,54 | 3,06 |
| **888 Holdings plc** | 332 | 386 | 398 | 475 | 140 | 147 | 123 | 148 | 2,37 | 2,63 | 3,24 | 3,22 |
| **DraftKings Holdings Inc.** | 261 | 295 | 2812 | 3578 | 66 | -44 | 2151 | 1476 | 3,94 | n.m. | 1,31 | 2,42 |
| **Penn National Gaming, Inc.** | 9573 | 12649 | 11991 | 14836 | 639 | 1650 | 2171 | 3603 | n.m. | n.m. | 5,52 | 4,12 |
| **Better Collective A/S** | 149 | 230 | 315 | 597 | 86 | 138 | 163 | 345 | 1,73 | 1,66 | 1,94 | 1,73 |
| **Raketech Group Holding PLC** | 78 | 82 | 91 | 137 | 59 | 65 | 71 | 85 | 1,33 | 1,26 | 1,29 | 1,62 |
| **Catena Media plc** | 379 | 333 | 341 | 366 | 142 | 147 | 240 | 229 | 2,67 | 2,26 | 1,42 | 1,60 |
| **Total / average** | | | | | | | | | **2,41** | **2,75** | **2,70** | **2,67** |

| | Total assets | | | | Total equity | | | | Equity multiplier | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| Company | FY2018 | FY2019 | FY2020 | FY2021 | FY2018 | FY2019 | FY2020 | FY2021 | FY2018 | FY2019 | FY2020 | FY2021 |
| **Zynga Inc.** | 1875 | 3262 | 5074 | 5591 | 1394,5 | 1760,3 | 2404,7 | 2736,3 | 1,34 | 1,85 | 2,11 | 2,04 |
| **Electronic Arts Inc.** | 6968 | 7981 | 10112 | 11321 | 3729,8 | 4749,9 | 6789,5 | 6679,7 | 1,87 | 1,68 | 1,49 | 1,69 |
| **Take-Two Interactive Software, Inc.** | 3034 | 3781 | 4503 | 5136 | 1208,6 | 1818,2 | 2310,7 | 2838,8 | 2,51 | 2,08 | 1,95 | 1,81 |
| **Activision Blizzard, Inc.** | 15625 | 17684 | 18892 | 22032 | 9949,8 | 11410,5 | 12292,7 | 15474,8 | 1,57 | 1,55 | 1,54 | 1,42 |
| **Stillfront Group AB (publ)** | 255 | 387 | 1231 | 1950 | 107,7 | 186,9 | 611,8 | 952,5 | 2,37 | 2,07 | 2,01 | 2,05 |
| **Embracer Group AB (publ)** | 629 | 827 | 974 | 3297 | 344,3 | 548,8 | 585,8 | 2653,7 | 1,83 | 1,51 | 1,66 | 1,24 |
| **Logitech International S.A.** | 1415 | 1803 | 2151 | 3529 | 852,7 | 1048,1 | 1355,2 | 1927,0 | 1,66 | 1,72 | 1,59 | 1,83 |
| **Total / average** | | | | | | | | | **1,88** | **1,78** | **1,76** | **1,73** |

| | Total assets | | | | Total equity | | | | Equity multiplier | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| Company | FY2018 | FY2019 | FY2020 | FY2021 | FY2018 | FY2019 | FY2020 | FY2021 | FY2018 | FY2019 | FY2020 | FY2021 |
| **Sinch AB (publ)** | 356 | 476 | 1158 | 5551 | 164 | 191 | 748 | 3312 | 2,18 | 2,50 | 1,55 | 1,68 |
| **SimCorp A/S** | 270 | 438 | 471 | 526 | 169 | 230 | 278 | 323 | 1,60 | 1,90 | 1,69 | 1,63 |
| **Hexagon AB (publ)** | 9684 | 10601 | 10704 | 14095 | 5319 | 6077 | 5949 | 8765 | 1,82 | 1,74 | 1,80 | 1,61 |
| **Volue ASA** | 108 | 114 | 140 | 174 | 38 | 37 | 71 | 77 | 2,87 | 3,11 | 1,98 | 2,28 |
| **Vitec Software Group AB (publ)** | 165 | 180 | 220 | 365 | 66 | 72 | 84 | 193 | 2,50 | 2,49 | 2,62 | 1,89 |
| **LINK Mobility Group Holding ASA** | 550 | 615 | 734 | 1052 | 258 | 237 | 410 | 508 | 2,14 | 2,59 | 1,79 | 2,07 |
| **Ørn Software Holding AS** | 0 | 7 | 27 | 98 | 0 | 4 | 7 | 37 | n.m. | 1,90 | 3,70 | 2,64 |
| **Mercell Holding ASA** | 9 | 46 | 332 | 448 | 3 | 12 | 154 | 212 | 3,27 | 3,94 | 2,15 | 2,11 |
| **SmartCraft ASA** | 42 | 48 | 66 | 88 | 22 | 22 | 31 | 70 | 1,95 | 2,13 | 2,13 | 1,26 |
| **IAR Systems Group AB (publ)** | 71 | 79 | 83 | 79 | 54 | 56 | 61 | 57 | 1,31 | 1,39 | 1,36 | 1,39 |
| **Tecnotree Oyj** | 29 | 37 | 51 | 79 | -7 | 4 | 20 | 68 | n.m. | n.m. | 2,54 | 1,17 |
| **Total / average** | | | | | | | | | **2,18** | **2,37** | **2,12** | **1,79** |

*Source: S&P Capital IQ*

Compiled by authors

# Appendix 8: Evolution and peers Return on Equity

| | Net income margin | | | | Equity multiplier | | | | Asset turnover ratio | | | | Return on Equity | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| Company | FY2018 | FY2019 | FY2020 | FY2021 | FY2018 | FY2019 | FY2020 | FY2021 | FY2018 | FY2019 | FY2020 | FY2021 | FY2018 | FY2019 | FY2020 | FY2021 |
| **Evolution AB (publ)** | 34,0% | 40,9% | 50,7% | 56,6% | 1,48 | 1,55 | 1,16 | 1,22 | 1,02 | 0,84 | 0,18 | 0,27 | 51,4% | 53,3% | 10,4% | 19,0% |

| | Net income margin | | | | Equity multiplier | | | | Asset turnover ratio | | | | Return on Equity | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| Company | FY2018 | FY2019 | FY2020 | FY2021 | FY2018 | FY2019 | FY2020 | FY2021 | FY2018 | FY2019 | FY2020 | FY2021 | FY2018 | FY2019 | FY2020 | FY2021 |
| **Flutter Entertainment plc** | 10,8% | 6,7% | 0,9% | -6,9% | 1,23 | 1,29 | 1,55 | 1,63 | 0,36 | 0,40 | 0,26 | 0,36 | 4,8% | 3,4% | 0,3% | -4,0% |
| **Entain Plc** | -2,1% | -4,3% | 1,6% | 6,5% | 2,16 | 2,45 | 2,36 | 2,29 | 0,39 | 0,51 | 0,49 | 0,53 | -1,8% | -5,4% | 1,9% | 7,9% |
| **La Française des Jeux Société anonyr** | 9,5% | 6,8% | 11,1% | 13,3% | 3,91 | 5,02 | 4,13 | 3,85 | 0,82 | 0,68 | 0,66 | 0,69 | 30,2% | 23,4% | 30,4% | 35,5% |
| **Tabcorp Holdings Limited** | 0,8% | 6,6% | -16,7% | 4,8% | 1,79 | 1,90 | 2,06 | 1,77 | 0,29 | 0,40 | 0,42 | 0,47 | 0,4% | 5,0% | -14,4% | 4,0% |
| **Gaming Innovation Group Inc.** | n.m. | n.m. | n.m. | -0,1% | 2,16 | 6,46 | n.m. | 7,35 | 0,27 | 0,33 | 0,68 | 0,81 | n.a. | n.a. | n.a. | -0,5% |
| **Kambi Group plc** | 12,9% | 11,3% | 20,4% | 28,9% | 1,35 | 1,40 | 1,39 | 1,45 | 0,98 | 0,92 | 0,86 | 0,82 | 17,0% | 14,6% | 24,5% | 34,3% |
| **Aspire Global plc** | 15,8% | 0,3% | 8,4% | 37,9% | 2,55 | 2,96 | 3,01 | 1,64 | 1,04 | 1,26 | 1,09 | 1,01 | 42,1% | 1,2% | 27,4% | 63,1% |
| **Playtech plc** | 10,1% | -1,4% | n.m. | 58,2% | 2,29 | 2,53 | 3,41 | 2,31 | 0,40 | 0,47 | 0,35 | 0,32 | 9,2% | -1,6% | n.a. | 42,7% |
| **Light & Wonder, Inc.** | -10,5% | -5,4% | n.m. | 17,4% | n.m. | n.m. | n.m. | n.m. | 0,44 | 0,31 | 0,21 | 0,27 | n.a. | n.a. | n.a. | n.a. |
| **International Game Technology PLC** | -0,5% | -0,5% | n.m. | 11,9% | 4,96 | 5,49 | 8,32 | 5,74 | 0,29 | 0,30 | 0,24 | 0,36 | -0,8% | -0,8% | n.a. | 24,5% |
| **GAN Limited** | n.m. | 6,7% | n.m. | -23,5% | 1,89 | 1,73 | 1,11 | 1,16 | 0,62 | 1,14 | 0,20 | 0,50 | n.a. | 13,2% | n.a. | -13,7% |
| **Betsson AB** | 19,9% | 15,2% | 15,8% | 16,3% | 1,63 | 1,57 | 1,63 | 1,58 | 0,73 | 0,67 | 0,77 | 0,72 | 23,5% | 16,1% | 19,9% | 18,6% |
| **Kindred Group plc** | 14,5% | 6,2% | 14,6% | 23,5% | 2,59 | 3,40 | 2,41 | 2,15 | 1,20 | 1,15 | 1,14 | 1,03 | 45,1% | 24,2% | 40,1% | 52,2% |
| **LeoVegas AB (publ)** | 13,2% | 2,9% | 4,8% | 2,8% | 2,80 | 2,67 | 2,54 | 3,06 | 1,17 | 1,36 | 1,55 | 1,53 | 43,2% | 10,6% | 18,9% | 13,1% |
| **888 Holdings plc** | 17,5% | 7,4% | 1,3% | 7,1% | 2,37 | 2,63 | 3,24 | 3,22 | 1,42 | 1,29 | 1,75 | 1,80 | 59,1% | 25,3% | 7,5% | 41,0% |
| **DraftKings Holdings Inc.** | n.m. | n.m. | n.m. | n.m. | 3,94 | n.m. | 1,31 | 2,42 | 0,76 | 0,98 | 0,18 | 0,31 | n.a. | n.a. | n.a. | n.a. |
| **Penn National Gaming, Inc.** | 2,6% | 0,8% | -18,7% | 7,2% | n.m. | n.m. | 5,52 | 4,12 | 0,32 | 0,37 | 0,24 | 0,35 | n.a. | n.a. | -25,2% | 10,3% |
| **Better Collective A/S** | 13,5% | 20,7% | 24,0% | 9,6% | 1,73 | 1,66 | 1,94 | 1,73 | 0,27 | 0,29 | 0,29 | 0,30 | 6,3% | 10,1% | 13,5% | 5,0% |
| **Raketech Group Holding PLC** | 18,4% | 30,3% | 19,1% | 18,1% | 1,33 | 1,26 | 1,29 | 1,62 | 0,33 | 0,29 | 0,32 | 0,29 | 8,0% | 11,1% | 7,9% | 8,4% |
| **Catena Media plc** | 29,4% | -10,2% | 11,8% | -5,2% | 2,67 | 2,26 | 1,42 | 1,60 | 0,28 | 0,31 | 0,31 | 0,38 | 21,7% | -7,2% | 5,2% | -3,1% |
| **Total / average** | **10,3%** | **5,6%** | **7,0%** | **12,0%** | **2,41** | **2,75** | **2,70** | **2,67** | **0,62** | **0,67** | **0,60** | **0,64** | **20,5%** | **9,0%** | **11,3%** | **18,8%** |

| | Net income margin | | | | Equity multiplier | | | | Asset turnover ratio | | | | Return on Equity | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| Company | FY2018 | FY2019 | FY2020 | FY2021 | FY2018 | FY2019 | FY2020 | FY2021 | FY2018 | FY2019 | FY2020 | FY2021 | FY2018 | FY2019 | FY2020 | FY2021 |
| **Zynga Inc.** | 1,7% | 3,2% | -21,7% | -3,7% | 1,34 | 1,85 | 2,11 | 2,04 | 0,42 | 0,36 | 0,32 | 0,44 | 1,0% | 2,1% | -14,6% | -3,3% |
| **Electronic Arts Inc.** | 20,3% | 20,6% | 54,9% | 13,8% | 1,87 | 1,68 | 1,49 | 1,69 | 0,60 | 0,55 | 0,50 | 0,46 | 22,7% | 19,1% | 40,7% | 10,7% |
| **Take-Two Interactive Software, Inc.** | 9,7% | 12,5% | 13,1% | 17,2% | 2,51 | 2,08 | 1,95 | 1,81 | 0,48 | 0,63 | 0,62 | 0,57 | 11,7% | 16,4% | 15,9% | 17,7% |
| **Activision Blizzard, Inc.** | 24,6% | 23,2% | 27,2% | 30,9% | 1,57 | 1,55 | 1,54 | 1,42 | 0,42 | 0,33 | 0,35 | 0,35 | 16,2% | 11,7% | 14,6% | 15,3% |
| **Stillfront Group AB (publ)** | 10,8% | 15,6% | 13,4% | 10,8% | 2,37 | 2,07 | 2,01 | 2,05 | 0,56 | 0,54 | 0,35 | 0,27 | 14,2% | 17,3% | 9,4% | 6,0% |
| **Embracer Group AB (publ)** | 6,6% | 5,7% | 4,7% | 3,2% | 1,83 | 1,51 | 1,66 | 1,24 | 0,70 | 0,64 | 0,57 | 0,27 | 8,4% | 5,5% | 4,5% | 1,1% |
| **Logitech International S.A.** | 8,1% | 9,2% | 15,1% | 19,5% | 1,66 | 1,72 | 1,59 | 1,83 | 1,47 | 1,38 | 1,26 | 1,17 | 19,9% | 21,9% | 30,2% | 41,9% |
| **Total / average** | **11,7%** | **12,9%** | **15,2%** | **13,1%** | **1,88** | **1,78** | **1,76** | **1,73** | **0,66** | **0,63** | **0,57** | **0,50** | **14,3%** | **12,9%** | **14,0%** | **13,5%** |

| | Net income margin | | | | Equity multiplier | | | | Asset turnover ratio | | | | Return on Equity | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| Company | FY2018 | FY2019 | FY2020 | FY2021 | FY2018 | FY2019 | FY2020 | FY2021 | FY2018 | FY2019 | FY2020 | FY2021 | FY2018 | FY2019 | FY2020 | FY2021 |
| **Sinch AB (publ)** | 4,5% | 5,4% | 5,5% | 5,8% | 2,18 | 2,50 | 1,55 | 1,68 | 1,11 | 1,02 | 0,70 | 0,27 | 10,8% | 13,7% | 5,9% | 2,7% |
| **SimCorp A/S** | 20,1% | 21,3% | 19,4% | 22,5% | 1,60 | 1,90 | 1,69 | 1,63 | 1,42 | 1,04 | 0,97 | 0,93 | 45,5% | 42,1% | 31,7% | 34,0% |
| **Hexagon AB (publ)** | 19,4% | 18,0% | 16,4% | 18,5% | 1,82 | 1,74 | 1,80 | 1,61 | 0,39 | 0,37 | 0,35 | 0,31 | 13,7% | 11,6% | 10,4% | 9,1% |
| **Volue ASA** | 0,1% | 0,9% | 9,2% | 2,8% | 2,87 | 3,11 | 1,98 | 2,28 | 0,76 | 0,71 | 0,61 | 0,57 | 0,2% | 2,0% | 11,1% | 3,6% |
| **Vitec Software Group AB (publ)** | 8,5% | 7,9% | 10,9% | 13,1% | 2,50 | 2,49 | 2,62 | 1,89 | 0,68 | 0,69 | 0,67 | 0,42 | 14,5% | 13,5% | 19,1% | 10,4% |
| **LINK Mobility Group Holding ASA** | n.m. | -8,1% | -9,3% | -1,8% | 2,14 | 2,59 | 1,79 | 2,07 | 0,15 | 0,48 | 0,46 | 0,41 | n.a. | -10,0% | -7,6% | -1,5% |
| **Ørn Software Holding AS** | n.m. | -3,7% | -8,6% | -20,1% | n.m. | 1,90 | 3,70 | 2,64 | n.m. | 1,00 | 0,29 | 0,20 | n.a. | -7,1% | -9,2% | -10,5% |
| **Mercell Holding ASA** | -7,2% | -36,7% | n.m. | -16,0% | 3,27 | 3,94 | 2,15 | 2,11 | 1,12 | 0,34 | 0,09 | 0,16 | -26,2% | -48,8% | n.a. | -5,3% |
| **SmartCraft ASA** | 0,8% | -2,1% | 20,0% | 13,6% | 1,95 | 2,13 | 2,13 | 1,26 | 0,18 | 0,33 | 0,28 | 0,30 | 0,3% | -1,5% | 12,1% | 5,2% |
| **IAR Systems Group AB (publ)** | 22,7% | 20,0% | 16,0% | -18,9% | 1,31 | 1,39 | 1,36 | 1,39 | 0,53 | 0,49 | 0,45 | 0,44 | 15,9% | 13,7% | 9,7% | -11,5% |
| **Tecnotree Oyj** | -1,2% | 16,4% | 25,7% | 28,3% | n.m. | n.m. | 2,54 | 1,17 | 1,47 | 1,28 | 1,04 | 0,81 | n.a. | n.a. | 68,2% | 27,0% |
| **Total / average** | **7,5%** | **3,6%** | **10,5%** | **4,3%** | **2,18** | **2,37** | **2,12** | **1,79** | **0,78** | **0,70** | **0,54** | **0,44** | **9,3%** | **2,9%** | **15,1%** | **5,7%** |

*Source: S&P Capital IQ*

Compiled by authors

# Appendix 9: Evolution and peers current ratio

| | Total current assets | | | | Total current liabilities | | | | Current ratio | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| Company | FY2018 | FY2019 | FY2020 | FY2021 | FY2018 | FY2019 | FY2020 | FY2021 | FY2018 | FY2019 | FY2020 | FY2021 |
| **Evolution AB (publ)** | 179 | 329 | 499 | 809 | 73 | 138 | 368 | 370 | 2,45 | 2,39 | 1,36 | 2,19 |

| | Total current assets | | | | Total current liabilities | | | | Current ratio | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| Company | FY2018 | FY2019 | FY2020 | FY2021 | FY2018 | FY2019 | FY2020 | FY2021 | FY2018 | FY2019 | FY2020 | FY2021 |
| **Flutter Entertainment plc** | 415 | 427 | 1631 | 2336 | 644 | 1045 | 2212 | 2469 | 0,64 | 0,41 | 0,74 | 0,95 |
| **Entain Plc** | 1007 | 1091 | 1557 | 1318 | 1319 | 1487 | 1667 | 1476 | 0,76 | 0,73 | 0,93 | 0,89 |
| **La Française des Jeux Société anonyr** | 930 | 1288 | 1390 | 1341 | 1336 | 1926 | 1569 | 1792 | 0,70 | 0,67 | 0,89 | 0,75 |
| **Tabcorp Holdings Limited** | 423 | 472 | 446 | 568 | 894 | 1007 | 1010 | 1085 | 0,47 | 0,47 | 0,44 | 0,52 |
| **Gaming Innovation Group Inc.** | 44 | 58 | 27 | 26 | 35 | 63 | 31 | 26 | 1,26 | 0,91 | 0,89 | 0,99 |
| **Kambi Group plc** | 57 | 67 | 97 | 114 | 13 | 16 | 26 | 35 | 4,43 | 4,22 | 3,73 | 3,26 |
| **Aspire Global plc** | 76 | 54 | 55 | 121 | 32 | 38 | 77 | 58 | 2,37 | 1,44 | 0,72 | 2,09 |
| **Playtech plc** | 993 | 1042 | 1404 | 1353 | 1018 | 777 | 823 | 835 | 0,98 | 1,34 | 1,71 | 1,62 |
| **Light & Wonder, Inc.** | 1196 | 1439 | 1783 | 1523 | 652 | 683 | 680 | 856 | 1,83 | 2,11 | 2,62 | 1,78 |
| **International Game Technology PLC** | 1997 | 2347 | 2812 | 2187 | 1749 | 2200 | 2138 | 1683 | 1,14 | 1,07 | 1,32 | 1,30 |
| **GAN Limited** | 12 | 17 | 134 | 48 | 8 | 9 | 14 | 29 | 1,43 | 1,82 | 9,44 | 1,65 |
| **Betsson AB** | 211 | 213 | 260 | 270 | 267 | 166 | 205 | 311 | 0,79 | 1,28 | 1,27 | 0,87 |
| **Kindred Group plc** | 285 | 267 | 490 | 499 | 345 | 327 | 453 | 517 | 0,83 | 0,82 | 1,08 | 0,97 |
| **LeoVegas AB (publ)** | 94 | 91 | 92 | 102 | 106 | 118 | 96 | 100 | 0,88 | 0,77 | 0,96 | 1,02 |
| **888 Holdings plc** | 145 | 127 | 224 | 285 | 190 | 205 | 244 | 299 | 0,76 | 0,62 | 0,92 | 0,95 |
| **DraftKings Holdings Inc.** | 229 | 233 | 1794 | 2421 | 171 | 227 | 453 | 817 | 1,34 | 1,02 | 3,96 | 2,96 |
| **Penn National Gaming, Inc.** | 592 | 573 | 1704 | 1955 | 645 | 807 | 703 | 996 | 0,92 | 0,71 | 2,42 | 1,96 |
| **Better Collective A/S** | 25 | 36 | 49 | 63 | 24 | 22 | 26 | 55 | 1,03 | 1,63 | 1,85 | 1,13 |
| **Raketech Group Holding PLC** | 12 | 8 | 10 | 9 | 7 | 7 | 10 | 32 | 1,79 | 1,18 | 0,96 | 0,29 |
| **Catena Media plc** | 35 | 33 | 48 | 48 | 67 | 26 | 17 | 41 | 0,51 | 1,25 | 2,78 | 1,15 |
| **Total / average** | | | | | | | | | **1,24** | **1,22** | **1,98** | **1,36** |

| | Total current assets | | | | Total current liabilities | | | | Current ratio | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| Company | FY2018 | FY2019 | FY2020 | FY2021 | FY2018 | FY2019 | FY2020 | FY2021 | FY2018 | FY2019 | FY2020 | FY2021 |
| **Zynga Inc.** | 653 | 1404 | 1520 | 1450 | 419 | 706 | 1084 | 1375 | 1,56 | 1,99 | 1,40 | 1,05 |
| **Electronic Arts Inc.** | 4873 | 5685 | 5930 | 6145 | 2022 | 2018 | 2424 | 2525 | 2,41 | 2,82 | 2,45 | 2,43 |
| **Take-Two Interactive Software, Inc.** | 1956 | 2520 | 3179 | 3596 | 1402 | 1739 | 1855 | 1904 | 1,40 | 1,45 | 1,71 | 1,89 |
| **Activision Blizzard, Inc.** | 5333 | 6498 | 8637 | 11040 | 2308 | 2598 | 2534 | 2120 | 2,31 | 2,50 | 3,41 | 5,21 |
| **Stillfront Group AB (publ)** | 39 | 56 | 145 | 183 | 38 | 50 | 136 | 281 | 1,05 | 1,13 | 1,07 | 0,65 |
| **Embracer Group AB (publ)** | 267 | 437 | 397 | 1617 | 222 | 194 | 255 | 344 | 1,20 | 2,25 | 1,56 | 4,70 |
| **Logitech International S.A.** | 952 | 1203 | 1287 | 2692 | 467 | 640 | 650 | 1433 | 2,04 | 1,88 | 1,98 | 1,88 |
| **Total / average** | | | | | | | | | **1,71** | **2,00** | **1,94** | **2,54** |

| | Total current assets | | | | Total current liabilities | | | | Current ratio | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| Company | FY2018 | FY2019 | FY2020 | FY2021 | FY2018 | FY2019 | FY2020 | FY2021 | FY2018 | FY2019 | FY2020 | FY2021 |
| **Sinch AB (publ)** | 123 | 176 | 578 | 697 | 110 | 116 | 252 | 1528 | 1,12 | 1,52 | 2,29 | 0,46 |
| **SimCorp A/S** | 219 | 274 | 320 | 379 | 81 | 128 | 119 | 128 | 2,70 | 2,15 | 2,70 | 2,95 |
| **Hexagon AB (publ)** | 2062 | 2118 | 1894 | 2272 | 1831 | 1802 | 1920 | 2355 | 1,13 | 1,18 | 0,99 | 0,96 |
| **Volue ASA** | 79 | 72 | 76 | 101 | 69 | 65 | 52 | 85 | 1,15 | 1,10 | 1,45 | 1,19 |
| **Vitec Software Group AB (publ)** | 49 | 27 | 41 | 42 | 34 | 37 | 53 | 60 | 1,44 | 0,74 | 0,77 | 0,70 |
| **LINK Mobility Group Holding ASA** | 59 | 83 | 162 | 175 | 55 | 90 | 93 | 113 | 1,07 | 0,92 | 1,75 | 1,54 |
| **Ørn Software Holding AS** | 0 | 1 | 8 | 16 | 0 | 2 | 6 | 11 | n.m. | 0,39 | 1,26 | 1,42 |
| **Mercell Holding ASA** | 5 | 8 | 43 | 28 | 7 | 16 | 54 | 61 | 0,81 | 0,51 | 0,79 | 0,46 |
| **SmartCraft ASA** | 4 | 6 | 10 | 19 | 6 | 9 | 15 | 14 | 0,66 | 0,66 | 0,64 | 1,34 |
| **IAR Systems Group AB (publ)** | 21 | 18 | 20 | 22 | 14 | 16 | 15 | 17 | 1,53 | 1,13 | 1,31 | 1,26 |
| **Tecnotree Oyj** | 26 | 30 | 43 | 66 | 17 | 11 | 12 | 9 | 1,53 | 2,63 | 3,62 | 7,33 |
| **Total / average** | | | | | | | | | **1,31** | **1,18** | **1,60** | **1,78** |

*Source: S&P Capital IQ*

Compiled by authors

## Appendix 10: Evolution beta from peers

| | $\beta_E$ | Leverage | Tax | $\beta_A$ |
|---|---|---|---|---|
| Playtech plc | 1,60 | 9% | 17% | 1,48 |
| Kambi Group plc | 1,20 | 0% | 35% | 1,20 |
| Scientific Games Corporation | 2,64 | 48% | 26% | 1,58 |
| International Game Technology PLC | 2,32 | 44% | 17% | 1,41 |
| GAN Limited | 2,02 | 0% | 26% | 2,02 |
| Gaming Innovation Group Inc. | 1,23 | 27% | 35% | 0,99 |
| **Average** | | | | **1,45** |
| **Median** | | | | **1,44** |

| Company | HQ | Description | Market cap as of Dec 31st 2021 | Sales FY21 |
|---|---|---|---|---|
| Europe based | | | | |
| Playtech | London, England | Technology company that provides software and platform technologies for primarly live-casino | EUR 2,600 m | EUR 1,205 m |
| Kambi Group | Ta'Xbiex, Malta | B2B provider of sports betting terminals and playforms in Europe and america | EUR 767 m | EUR 156 m |
| International Game Technology | London, England | Global provider of B2B land-based and lottery products to multiple gaming operators | EUR 5,178 m | EUR 3,595 m |
| Gaming Innovation Group | San Giljan, Malta | B2B iGaming and sports betting as well as iGaming media services | EUR 173 m | EUR 82.6 |
| US based | | | | |
| Scientific Games Corporation | Las Vegas, US | B2B global provider of software for online and retail gaming, lottery and sports | EUR 5,671 m | EUR 1,893 m |
| GAN Limited | Las Vegas, US | B2B iGaming provider with primarly US focus | EUR 341 m | EUR 109 m |

*Source: S&P Capital IQ*

Compiled by authors

## Appendix 11: Operational drivers

| Operational drivers | 2018A | 2019A | 2020A | 2021A | 2022E | 2023E | 2024E | 2025E | 2026E | 2027E |
|---|---|---|---|---|---|---|---|---|---|---|
| **DCF: Base case** | | | | | | | | | | |
| **Profit and loss** | | | | | | | | | | |
| *Europe sales growth* | - | - | *45,9%* | *55,0%* | *40,0%* | *30,0%* | - | - | - | - |
| *Asia sales growth* | - | - | *153,4%* | *127,9%* | *80,0%* | *70,0%* | - | - | - | - |
| *North America sales growth* | - | - | *70,0%* | *206,1%* | *70,0%* | *65,0%* | - | - | - | - |
| *Nordics sales growth* | - | - | *22,6%* | *145,3%* | *40,0%* | *30,0%* | - | - | - | - |
| *Great Britain sales growth* | - | - | *-12,0%* | *85,4%* | *25,0%* | *16,5%* | - | - | - | - |
| *ROW sales growth* | - | - | *56,9%* | *72,9%* | *40,7%* | *20,0%* | - | - | - | - |
| *Total sales growth* | *37,6%* | *49,0%* | *53,4%* | *90,5%* | - | - | *25,0%* | *19,0%* | *14,0%* | *10,0%* |
| *Personnel costs % of sales* | *39,8%* | *34,6%* | *23,8%* | *19,4%* | *19,0%* | *19,0%* | *18,5%* | *18,5%* | *18,5%* | *18,5%* |
| *Other OPEX % of sales* | *16,3%* | *15,4%* | *17,0%* | *11,9%* | *17,0%* | *16,5%* | *15,1%* | *15,1%* | *15,1%* | *15,1%* |
| *Interest income as % of sales* | *0,0%* | *0,0%* | *0,0%* | *0,1%* | *0,0%* | *0,0%* | *0,0%* | *0,0%* | *0,0%* | *0,0%* |
| *Interest expense as % of sales* | *0,1%* | *0,1%* | *0,2%* | *0,7%* | *0,3%* | *0,3%* | *0,4%* | *0,4%* | *0,3%* | *0,4%* |
| *Effective tax rate* | *6,5%* | *4,8%* | *4,7%* | *6,5%* | *5,6%* | *5,6%* | *5,6%* | *5,6%* | *5,6%* | *5,6%* |
| **Working Capital** | | | | | | | | | | |
| *Accounts receivable % of sales* | *19%* | *18%* | *21%* | *19%* | *19%* | *19%* | *19%* | *19%* | *19%* | *19%* |
| *Other current receivable % sales* | *1%* | *2%* | *2%* | *1%* | *1%* | *1%* | *1%* | *1%* | *1%* | *1%* |
| *Prepaid expense and accr. Income % of sales* | *1%* | *1%* | *2%* | *3%* | *2%* | *2%* | *2%* | *2%* | *2%* | *2%* |
| *Accounts payable % of sales* | *1%* | *1%* | *3%* | *1%* | *2%* | *2%* | *2%* | *2%* | *2%* | *2%* |
| *Other current liabilities % of sales* | *5%* | *5%* | *23%* | *10%* | *11%* | *11%* | *11%* | *11%* | *11%* | *11%* |
| *Accr. Expenses an prepaid inc. % of sales* | *3%* | *6%* | *7%* | *4%* | *5%* | *5%* | *5%* | *5%* | *5%* | *5%* |
| **Capital Expenditure** | | | | | | | | | | |
| *Investments in tangible assets % of sales* | *7%* | *5%* | *4%* | *3%* | *4%* | *4%* | *4%* | *3%* | *3%* | *3%* |
| *Investments in intangible assets % of sales* | *6%* | *3%* | *2%* | *3%* | *6%* | *5%* | *4%* | *4%* | *4%* | *4%* |
| **Depreciation and amortization** | | | | | | | | | | |
| *Depreciation as % of adjusted tangible assets BOY* | *18,9%* | *25,0%* | *19,1%* | *14,2%* | *25%* | *25%* | *25%* | *25%* | *25%* | *25%* |
| *Amortization as % of adjusted tangible assets BOY* | *26,7%* | *22,1%* | *22,7%* | *12,4%* | *30%* | *30%* | *30%* | *30%* | *30%* | *30%* |

*Source: Authors estimates*

Compiled by authors

## Appendix 12: GDP per capita calculations

| **Revenue 2021 EURm:** | **100** | | | | |
|---|---|---|---|---|---|
| | Established | GDP per capita | % GDP | Implied revenue (EURm) | Revenue ratio |
| New Jersey | 2018 | 72 524 | 37,4% | 37,42 | |
| Michigan | 2020 | 56 554 | 29,2% | 29,18 | |
| Pennsylvania | 2021 | 64 751 | 33,4% | 33,41 | |
| **Total** | | **193 829** | **100,0%** | **100** | **0,0005159** |
| **Connecticut** | **2022** | **82 233** | | **42,4** | |

*Source: Department of Numbers*

Compiled by authors

## Appendix 13: Adjusted tangible assets

| *Currency: EUR thousands* | FY18 | FY19 | FY20 | FY21 |
|---|---|---|---|---|
| | **BOY** | **BOY** | **BOY** | **BOY** |
| Land | 1 664 | 1 664 | 1 664 | 1 664 |
| Property | 11 173 | 11 173 | 11 219 | 11 219 |
| Right of use assets | - | - | 22 927 | 53 438 |
| Leasehold improvements | 8 328 | 15 967 | 22 810 | 44 318 |
| Equipment | 20 708 | 27 436 | 33 286 | 77 949 |
| Work in progress | - | 1 829 | 4 755 | 3 310 |
| **Total intangible assets** | **41 873** | **58 069** | **96 661** | **191 898** |
| **Total adj. Intangible assets** | **40 209** | **54 576** | **90 242** | **186 924** |
| **Depreciation** | **7 581** | **13 624** | **17 206** | **26 506** |
| % of total adj. Tangible assets | 18,9% | 25,0% | 19,1% | 14,2% |

*Source: Evolution (2022a; 2020b)*

Compiled by authors

## Appendix 14: Adjusted intangible assets

| *Currency: EUR thousands* | FY18 | FY19 | FY20 | FY21 |
|---|---|---|---|---|
| | **BOY** | **BOY** | **BOY** | **BOY** |
| Gaming programme | 37 753 | 47 108 | 55 678 | 225 225 |
| Licenses and patents | 765 | 6 448 | 8 985 | 17 714 |
| Platform | - | - | - | 4 581 |
| Customer relationship | - | - | 2 868 | 193 813 |
| Goodwill | - | - | 12 485 | 1 834 333 |
| Brand | - | - | 261 | 335 534 |
| Work in progress | - | - | - | 5 596 |
| **Total intangible assets** | **38 518** | **53 556** | **80 277** | **2 616 796** |
| **Total adj. Intangible assets** | **38 518** | **53 556** | **67 531** | **441 333** |
| **Amortisation** | **10 278** | **11 853** | **15 307** | **54 794** |
| % of total adj. Intangible assets | 26,7% | 22,1% | 22,7% | 12,4% |

*Source: Evolution (2022a; 2020b)*

Compiled by authors

## Appendix 15: Earnout adjustments

| As of 2021-12-31 | |
|---|---|
| NOSH: | 215 111 115 |
| Share price EUR | 125 |
| Discount rate: | 9,41% |

| Share-based earnouts | FY22 | FY23 | FY24 |
|---|---|---|---|
| Value of shares, EURm | - | 34,5 | 34,5 |
| Discount factor | - | 0,84 | 0,76 |
| Present value, EURm | - | 28,8 | 26,3 |
| Shares to be issued | - | 230 566 | 210 735 |

| Redemption of shares | FY22 | FY23 | FY24 |
|---|---|---|---|
| Value of shares, EURm | 71,6 | - | - |
| Discount factor | 0,98 | - | - |
| Present value, EURm | 70,008 | - | - |
| Shares to be bought | 560 065 | - | - |
| **Adjusted NOSH** | **214 992 351** | | |

| As of 2021-12-31 | |
|---|---|
| Cash & CE, EURm | 421,4 |
| Discount rate | 9,41% |

| Cash-based earnouts | FY22 | FY23 | FY24 |
|---|---|---|---|
| Value of earnout, EURm | - | 80,5 | 80,5 |
| Discount factor | - | 0,84 | 0,76 |
| Present value, EURm | - | 67 | 61 |

| Redemption of shares | FY22 | FY23 | FY24 |
|---|---|---|---|
| Value of shares, EURm | 71,60 | | |
| Discount factor | 0,978 | | |
| Present value, EURm | 70 | | |
| **Adjusted Cash & CE, EURm** | **223** | | |

*Source: Evolution (2022), authors estimates*

Compiled by authors

# Appendix 16: Bull case operational drivers and FCFF

| Operational drivers | 2018A | 2019A | 2020A | 2021A | 2022E | 2023E | 2024E | 2025E | 2026E | 2027E |
|---|---|---|---|---|---|---|---|---|---|---|
| **DCF: Bull Case** | | | | | | | | | | |
| **Profit and loss** | | | | | | | | | | |
| *Europe sales growth* | - | - | *45,9%* | *55,0%* | *40,0%* | *30,0%* | - | - | - | - |
| *Asia sales growth* | - | - | *153,4%* | *127,9%* | *100,0%* | *80,0%* | - | - | - | - |
| *North America sales growth* | - | - | *70,0%* | *206,1%* | *90,0%* | *70,0%* | - | - | - | - |
| *Nordics sales growth* | - | - | *22,6%* | *145,3%* | *40,0%* | *30,0%* | - | - | - | - |
| *Great Britain sales growth* | - | - | *-12,0%* | *85,4%* | *25,0%* | *16,5%* | - | - | - | - |
| *ROW sales growth* | - | - | *56,9%* | *72,9%* | *45,0%* | *25,0%* | - | - | - | - |
| *Total sales growth* | *37,6%* | *49,0%* | *53,4%* | *90,5%* | - | - | *30,0%* | *25,0%* | *16,0%* | *12,0%* |
| *Personnel costs % of sales* | *39,8%* | *34,6%* | *23,8%* | *19,4%* | *19,0%* | *19,0%* | *18,5%* | *18,5%* | *18,5%* | *18,5%* |
| *Other OPEX % of sales* | *16,3%* | *15,4%* | *17,0%* | *11,9%* | *15,0%* | *15,0%* | *15,0%* | *15,0%* | *15,0%* | *15,0%* |
| *Interest income as % of sales* | *0,0%* | *0,0%* | *0,0%* | *0,1%* | *0,0%* | *0,0%* | *0,0%* | *0,0%* | *0,0%* | *0,0%* |
| *Interest expense as % of sales* | *0,1%* | *0,1%* | *0,2%* | *0,7%* | *0,3%* | *0,3%* | *0,4%* | *0,4%* | *0,3%* | *0,4%* |
| *Effective tax rate* | *6,5%* | *4,8%* | *4,7%* | *6,5%* | *5,6%* | *5,6%* | *5,6%* | *5,6%* | *5,6%* | *5,6%* |
| **Working Capital** | | | | | | | | | | |
| *Accounts receivable % of sales* | *19%* | *18%* | *21%* | *19%* | *19%* | *19%* | *19%* | *19%* | *19%* | *19%* |
| *Other current receivable % sales* | *1%* | *2%* | *2%* | *1%* | *1%* | *1%* | *1%* | *1%* | *1%* | *1%* |
| *Prepaid expense and accr. Income % of sales* | *1%* | *1%* | *2%* | *3%* | *2%* | *2%* | *2%* | *2%* | *2%* | *2%* |
| *Accounts payable % of sales* | *1%* | *1%* | *3%* | *1%* | *2%* | *2%* | *2%* | *2%* | *2%* | *2%* |
| *Other current liabilities % of sales* | *5%* | *5%* | *23%* | *10%* | *11%* | *11%* | *11%* | *11%* | *11%* | *11%* |
| *Accr. Expenses an prepaid inc. % of sales* | *3%* | *6%* | *7%* | *4%* | *5%* | *5%* | *5%* | *5%* | *5%* | *5%* |
| **Capital Expenditure** | | | | | | | | | | |
| *Investments in tangible assets % of sales* | *7%* | *5%* | *4%* | *3%* | *4%* | *4%* | *4%* | *3%* | *3%* | *3%* |
| *Investments in intangible assets % of sales* | *6%* | *3%* | *2%* | *3%* | *6%* | *5%* | *4%* | *4%* | *4%* | *4%* |
| **Depreciation and amortization** | | | | | | | | | | |
| *Depreciation as % of adjusted tangible assets BOY* | *18,9%* | *25,0%* | *19,1%* | *14,2%* | *25%* | *25%* | *25%* | *25%* | *25%* | *25%* |
| *Amortization as % of adjusted tangible assets BOY* | *26,7%* | *22,1%* | *22,7%* | *12,4%* | *30%* | *30%* | *30%* | *30%* | *30%* | *30%* |

| EURm | 2022 | 2023 | 2024 | 2025 | 2026 |
|---|---|---|---|---|---|
| **Free Cash Flow calculations** | | | | | |
| Total revenues | 1 718 | 2 586 | 3 362 | 4 203 | 4 875 |
| EBITDA | 1 134 | 1 707 | 2 236 | 2 795 | 3 242 |
| - Depreciation | (34) | (42) | (58) | (73) | (89) |
| - Amortization | (52) | (80) | (108) | (125) | (145) |
| EBIT | 1 048 | 1 584 | 2 070 | 2 597 | 3 008 |
| Tax rate | 5,64% | 5,64% | 5,64% | 5,64% | 5,64% |
| Adjusted tax on EBIT | (59) | (89) | (117) | (146) | (170) |
| NOPLAT | 989 | 1 495 | 1 953 | 2 451 | 2 838 |
| D&A added back | 86 | 123 | 166 | 197 | 234 |
| - Change in net working capital | (9) | (46) | (41) | (44) | (35) |
| - CAPEX | (172) | (233) | (238) | (287) | (326) |
| **Free Cash Flow to Firm (FCFF)** | **894** | **1 339** | **1 840** | **2 317** | **2 711** |
| | | | | | |
| Years to discount | 0,5 | 1,5 | 2,5 | 3,5 | 4,5 |
| Discount Factor | 0,956 | 0,874 | 0,799 | 0,730 | 0,667 |
| **PV of FCFF** | **855** | **1 170** | **1 470** | **1 691** | **1 809** |
| | | | | | |
| Effective tax rate | 5,64% | | | | |
| WACC | 9,41% | | | | |
| Terminal growth rate | 2,50% | | | | |
| | | | | | |
| Present value of forecast period | 6 994 | | | | |
| Present value of terminal value | 26 830 | | | | |
| **Enterprise value 31/12 2021** | **33 824** | | | | |
| Debt | (68) | | | | |
| Cash & CE | 421 | | | | |
| - Adjustments | (199) | | | | |
| **Equity value 31/12 2021** | **33 979** | | | | |
| | | | | | |
| NOSH | 215 111 115 | | | | |
| -Adjustments | (118 764) | | | | |
| **Adjusted NOSH** | **214 992 351** | | | | |
| | | | | | |
| **Price per share** | **158** | | | | |

*Source: Authors estimates*

Compiled by authors

## Appendix 17: Bear case operational drivers and FCFF

| Operational drivers | 2018A | 2019A | 2020A | 2021A | 2022E | 2023E | 2024E | 2025E | 2026E | 2027E |
|---|---|---|---|---|---|---|---|---|---|---|
| **DCF: Bear case** | | | | | | | | | | |
| **Profit and loss** | | | | | | | | | | |
| *Europe sales growth* | - | - | *45,9%* | *55,0%* | *20,0%* | *15,0%* | - | - | - | - |
| *Asia sales growth* | - | - | *153,4%* | *127,9%* | *60,0%* | *50,0%* | - | - | - | - |
| *North America sales growth* | - | - | *70,0%* | *206,1%* | *50,0%* | *45,0%* | - | - | - | - |
| *Nordics sales growth* | - | - | *22,6%* | *145,3%* | *20,0%* | *15,0%* | - | - | - | - |
| *Great Britain sales growth* | - | - | *-12,0%* | *85,4%* | *11,5%* | *11,5%* | - | - | - | - |
| *ROW sales growth* | - | - | *56,9%* | *72,9%* | *30,0%* | *20,0%* | - | - | - | - |
| *Total sales growth* | *37,6%* | *49,0%* | *53,4%* | *90,5%* | - | - | *20,0%* | *15,0%* | *10,0%* | *7,0%* |
| *Personnel costs % of sales* | *39,8%* | *34,6%* | *23,8%* | *19,4%* | *21,0%* | *21,0%* | *20,5%* | *20,0%* | *20,0%* | *19,5%* |
| *Other OPEX % of sales* | *16,3%* | *15,4%* | *17,0%* | *11,9%* | *17,0%* | *16,5%* | *15,1%* | *15,1%* | *15,1%* | *15,1%* |
| *Interest income as % of sales* | *0,0%* | *0,0%* | *0,0%* | *0,1%* | *0,0%* | *0,0%* | *0,0%* | *0,0%* | *0,0%* | *0,0%* |
| *Interest expense as % of sales* | *0,1%* | *0,1%* | *0,2%* | *0,7%* | *0,3%* | *0,3%* | *0,4%* | *0,4%* | *0,3%* | *0,4%* |
| *Effective tax rate* | *6,5%* | *4,8%* | *4,7%* | *6,5%* | *13,0%* | *13,0%* | *13,0%* | *13,0%* | *13,0%* | *13,0%* |
| **Working Capital** | | | | | | | | | | |
| *Accounts receivable % of sales* | *19%* | *18%* | *21%* | *19%* | *19%* | *19%* | *19%* | *19%* | *19%* | *19%* |
| *Other current receivable % sales* | *1%* | *2%* | *2%* | *1%* | *1%* | *1%* | *1%* | *1%* | *1%* | *1%* |
| *Prepaid expense and accr. Income % of sales* | *1%* | *1%* | *2%* | *3%* | *2%* | *2%* | *2%* | *2%* | *2%* | *2%* |
| *Accounts payable % of sales* | *1%* | *1%* | *3%* | *1%* | *2%* | *2%* | *2%* | *2%* | *2%* | *2%* |
| *Other current liabilities % of sales* | *5%* | *5%* | *23%* | *10%* | *11%* | *11%* | *11%* | *11%* | *11%* | *11%* |
| *Accr. Expenses an prepaid inc. % of sales* | *3%* | *6%* | *7%* | *4%* | *5%* | *5%* | *5%* | *5%* | *5%* | *5%* |
| **Capital Expenditure** | | | | | | | | | | |
| *Investments in tangible assets % of sales* | *7%* | *5%* | *4%* | *3%* | *4%* | *4%* | *4%* | *3%* | *3%* | *3%* |
| *Investments in intangible assets % of sales* | *6%* | *3%* | *2%* | *3%* | *4%* | *4%* | *4%* | *4%* | *4%* | *4%* |
| **Depreciation and amortization** | | | | | | | | | | |
| *Depreciation as % of adjusted tangible assets BOY* | *18,9%* | *25,0%* | *19,1%* | *14,2%* | *25%* | *25%* | *25%* | *25%* | *25%* | *25%* |
| *Amortization as % of adjusted tangible assets BOY* | *26,7%* | *22,1%* | *22,7%* | *12,4%* | *30%* | *30%* | *30%* | *30%* | *30%* | *30%* |

| EURm | 2022 | 2023 | 2024 | 2025 | 2026 |
|---|---|---|---|---|---|
| **Free Cash Flow calculations** | | | | | |
| Total revenues | 1 434 | 1 865 | 2 238 | 2 573 | 2 831 |
| EBITDA | 889 | 1 165 | 1 440 | 1 669 | 1 836 |
| - Depreciation | (34) | (38) | (45) | (53) | (61) |
| - Amortization | (52) | (67) | (82) | (94) | (107) |
| EBIT | 803 | 1 061 | 1 313 | 1 521 | 1 668 |
| Tax rate | 13,00% | 13,00% | 13,00% | 13,00% | 13,00% |
| Adjusted tax on EBIT | (104) | (138) | (171) | (198) | (217) |
| NOPLAT | 699 | 923 | 1 143 | 1 324 | 1 451 |
| D&A added back | 86 | 105 | 127 | 147 | 167 |
| - Change in net working capital | 6 | (23) | (20) | (18) | (14) |
| - CAPEX | (108) | (140) | (159) | (176) | (189) |
| **Free Cash Flow to Firm (FCFF)** | **683** | **865** | **1 091** | **1 277** | **1 416** |
| | | | | | |
| Years to discount | 0,5 | 1,5 | 2,5 | 3,5 | 4,5 |
| Discount Factor | 0,956 | 0,874 | 0,799 | 0,730 | 0,667 |
| **PV of FCFF** | **653** | **756** | **871** | **932** | **945** |
| | | | | | |
| Effective tax rate | 13,00% | | | | |
| WACC | 9,41% | | | | |
| Terminal growth rate | 2,50% | | | | |
| | | | | | |
| Present value of forecast period | 4 157 | | | | |
| Present value of terminal value | 14 014 | | | | |
| **Enterprise value 31/12 2021** | **18 171** | | | | |
| Debt | (68) | | | | |
| Cash & CE | 421 | | | | |
| - Adjustments | (199) | | | | |
| **Equity value 31/12 2021** | **18 326** | | | | |

| | |
|---|---|
| NOSH | 215 111 115 |
| -Adjustments | (118 764) |
| **Adjusted NOSH** | **214 992 351** |

| | |
|---|---|
| **Price per share** | **85** |

*Source: Authors estimates*

Compiled by authors

**Appendix 18: Listed peer multiples**

| | EV/Sales | | | EV/EBITDA | | EV/EBIT | | |
|---|---|---|---|---|---|---|---|---|
| Company | FY22E | FY23E | FY24E | FY22E | FY23E | FY22E | FY23E | FY24E |
| Flutter Entertainment plc | 3,6x | 3,1x | 2,8x | 22,4x | 15,9x | 30,7x | 19,3x | 15,4x |
| Entain Plc | 2,7x | 2,6x | 2,4x | 12,0x | 10,6x | 19,2x | 13,8x | 11,3x |
| La Française des Jeux Société ano | 3,1x | 2,9x | 2,8x | 12,9x | 12,2x | 16,6x | 15,7x | 14,6x |
| Tabcorp Holdings Limited | 2,2x | 2,2x | 2,1x | 12,1x | 11,1x | 18,8x | 16,3x | 15,2x |
| Gaming Innovation Group Inc. | 2,3x | 2,0x | 1,7x | 6,4x | 4,7x | 12,9x | 7,7x | 6,1x |
| Kambi Group plc | 4,4x | 3,8x | 3,8x | 11,5x | 9,5x | 20,4x | 15,5x | 22,1x |
| Aspire Global plc | 2,0x | 1,7x | 1,5x | 10,9x | 9,0x | 15,1x | 11,5x | 9,5x |
| Playtech plc | 2,3x | 2,3x | 2,1x | 9,2x | 8,4x | 16,6x | 14,7x | 14,0x |
| (Invalid Identifier) | n.a. | n.a. | n.a. | n.a. | n.a. | n.a. | n.a. | n.a. |
| International Game Technology PL | 2,9x | 2,8x | 2,7x | 7,4x | 6,9x | 13,9x | 12,7x | 12,4x |
| GAN Limited | 2,0x | 1,5x | 1,3x | 18,8x | 9,2x | n.a. | n.a. | 19,5x |
| Betsson AB | 1,0x | 1,0x | 0,9x | 5,7x | 5,1x | 8,1x | 7,0x | 6,0x |
| Kindred Group plc | 1,6x | 1,3x | 1,2x | 12,3x | 6,8x | 19,8x | 8,6x | 7,5x |
| LeoVegas AB (publ) | 0,9x | 0,7x | 0,7x | 6,6x | 5,6x | 10,1x | 7,9x | 6,4x |
| 888 Holdings plc | 1,3x | 1,2x | 1,1x | 7,8x | 7,1x | 10,0x | 9,4x | 8,9x |
| DraftKings Holdings Inc. | 4,5x | 3,4x | 2,6x | -10,5x | -21,0x | n.a. | n.a. | -14,0x |
| Penn National Gaming, Inc. | 2,6x | 2,5x | 2,3x | 8,4x | 8,0x | 13,8x | 13,5x | 11,9x |
| Better Collective A/S | 4,7x | 4,0x | 3,5x | 14,4x | 11,3x | 16,8x | 12,8x | 10,9x |
| Raketech Group Holding PLC | 1,9x | 1,7x | 1,6x | 4,5x | 3,9x | 6,6x | 5,6x | 4,9x |
| Catena Media plc | 2,8x | 2,6x | n.a. | 6,0x | 5,4x | 7,1x | 6,4x | n.a. |
| **Total / average** | **2,6x** | **2,3x** | **2,1x** | **10,5x** | **8,4x** | **15,1x** | **11,7x** | **10,1x** |
| | | | | | | | | |
| Company | FY22E | FY23E | FY24E | FY22E | FY23E | FY22E | FY23E | FY24E |
| Zynga Inc. | 2,3x | 2,1x | 2,0x | 10,1x | 8,5x | 10,8x | 9,6x | 7,9x |
| Electronic Arts Inc. | 4,9x | 4,6x | 4,3x | 13,4x | 12,5x | 14,9x | 14,0x | 12,7x |
| Take-Two Interactive Software, In | 5,0x | 4,3x | 3,5x | 24,2x | 17,5x | 25,7x | 18,7x | 15,2x |
| Activision Blizzard, Inc. | 5,0x | 4,4x | 4,0x | 11,6x | 10,1x | 11,9x | 10,0x | 8,3x |
| Stillfront Group AB (publ) | 3,4x | 3,1x | 3,0x | 8,6x | 7,6x | 10,4x | 9,4x | 8,5x |
| Embracer Group AB (publ) | 6,4x | 4,6x | 4,3x | 15,2x | 10,2x | 21,0x | 13,8x | 12,5x |
| Logitech International S.A. | 2,4x | 2,3x | 2,2x | 14,0x | 13,1x | 15,6x | 14,7x | 13,4x |
| IAR Systems Group AB (publ) | 3,7x | 3,2x | n.a. | 9,5x | 7,7x | 15,3x | 11,7x | n.a. |
| **Total / average** | **4,1x** | **3,6x** | **3,3x** | **13,3x** | **10,9x** | **15,7x** | **12,8x** | **11,2x** |
| | | | | | | | | |
| Company | FY22E | FY23E | FY24E | FY22E | FY23E | FY22E | FY23E | FY24E |
| Sinch AB (publ) | 3,3x | 2,8x | 2,2x | 25,4x | 20,5x | 31,5x | 23,5x | n.a. |
| SimCorp A/S | 7,0x | 6,5x | 5,8x | 23,5x | 21,3x | 26,2x | 23,5x | 19,8x |
| Hexagon AB (publ) | 8,3x | 7,7x | 7,0x | 21,9x | 20,2x | 29,1x | 26,7x | 22,9x |
| Volue ASA | 7,0x | 6,0x | n.a. | 28,9x | 22,9x | n.a. | 32,4x | n.a. |
| Vitec Software Group AB (publ) | 11,3x | 10,3x | n.a. | 30,0x | 26,3x | n.a. | 47,9x | n.a. |
| LINK Mobility Group Holding ASA | 1,7x | 1,4x | n.a. | 14,4x | 11,4x | 23,2x | 16,2x | n.a. |
| Glantus Holdings PLC | 1,8x | 1,4x | n.a. | 6,2x | 4,2x | n.a. | n.a. | n.a. |
| Ørn Software Holding AS | 3,2x | 3,0x | 2,7x | 12,8x | 11,1x | n.a. | -15,8x | -24,7x |
| Mercell Holding ASA | 5,4x | 4,7x | 4,3x | 18,5x | 13,6x | n.a. | 28,8x | 22,3x |
| SmartCraft ASA | 10,0x | 8,6x | 7,5x | 25,1x | 21,0x | 31,1x | 25,9x | 20,9x |
| Tecnotree Oyj | 5,7x | 5,0x | 4,5x | 12,6x | 10,7x | 13,4x | 11,2x | 10,0x |
| | **5,9x** | **5,2x** | **4,9x** | **19,9x** | **16,7x** | **25,8x** | **23,5x** | |

*Source: S&P Capital IQ*

Compiled by authors

## Appendix 19: Listed peer growth and margins

| | Rev. CAGR | | Avg. EBITDA margin | | Avg. EBIT margin | |
|---|---|---|---|---|---|---|
| Company | 2018-2021 | 2020-2023 | 2018-2021 | 2020-2023 | 2018-2021 | 2020-2023 |
| Flutter Entertainment plc | 50,7% | 23% | 20% | 18% | 10% | 12% |
| Entain Plc | 11,8% | 11% | 18% | 22% | 8% | 13% |
| La Française des Jeux Société anonyr | 7,1% | 9% | 19% | 23% | 15% | 18% |
| Tabcorp Holdings Limited | 14,0% | 8% | 17% | 18% | 12% | 12% |
| Gaming Innovation Group Inc. | 11,4% | 19% | n/a | 26% | n/a | 10% |
| Kambi Group plc | 28,3% | 17% | 29% | 39% | 24% | 27% |
| Aspire Global plc | 28,4% | 10% | 16% | 17% | 15% | 14% |
| Playtech plc | -1,8% | 10% | 21% | 24% | 10% | 12% |
| (Invalid Identifier) | n/a | n/a | n/a | n/a | n/a | n/a |
| International Game Technology PLC | 0,9% | 17% | 31% | 36% | 15% | 18% |
| GAN Limited | 110,5% | 90% | n/a | n/a | n/a | n/a |
| Betsson AB | 6,5% | 5% | 21% | 20% | 19% | 16% |
| Kindred Group plc | 14,0% | 8% | 20% | 20% | 18% | 17% |
| LeoVegas AB (publ) | 6,2% | 7% | 11% | 12% | 6% | 7% |
| 888 Holdings plc | 21,9% | 13% | 16% | 16% | 13% | 13% |
| DraftKings Holdings Inc. | 78,0% | 74% | n/a | n/a | n/a | n/a |
| Penn National Gaming, Inc. | 18,5% | 29% | 25% | 28% | 14% | 15% |
| Better Collective A/S | 64,7% | 47% | 38% | 35% | 31% | 30% |
| Raketech Group Holding PLC | 15,5% | 25% | 46% | 42% | 31% | 27% |
| Catena Media plc | 9,8% | 17% | 45% | 48% | 37% | 40% |
| **Total / average** | **26,1%** | **23,1%** | **24,6%** | **26,1%** | **17,4%** | **17,6%** |
| | 26,1% | 23,1% | | | | |

| | Rev. CAGR | | Avg. EBITDA margin | | Avg. EBIT margin | |
|---|---|---|---|---|---|---|
| Company | 2018-2021 | 2020-2023 | 2018-2021 | 2020-2023 | 2018-2021 | 2020-2023 |
| Zynga Inc. | 45,6% | 24% | 9% | 20% | 4% | 16% |
| Electronic Arts Inc. | 7,3% | 13% | 30% | 34% | 27% | 31% |
| Take-Two Interactive Software, Inc. | 26,1% | 8% | 16% | 22% | 14% | 20% |
| Activision Blizzard, Inc. | 5,5% | 11% | 36% | 42% | 33% | 41% |
| Stillfront Group AB (publ) | 55,0% | 16% | 28% | 36% | 25% | 30% |
| Embracer Group AB (publ) | 25,8% | 55% | 22% | 37% | 13% | 24% |
| Logitech International S.A. | 25,7% | 22% | 15% | 18% | 13% | 16% |
| IAR Systems Group AB (publ) | -2,6% | 9% | 29% | 35% | 25% | 23% |
| **Total / average** | **23,6%** | **20,0%** | **23,1%** | **30,3%** | **19,1%** | **25,3%** |

| | Rev. CAGR | | Avg. EBITDA margin | | Avg. EBIT margin | |
|---|---|---|---|---|---|---|
| Company | 2018-2021 | 2020-2023 | 2018-2021 | 2020-2023 | 2018-2021 | 2020-2023 |
| Sinch AB (publ) | 55,8% | 49% | 10% | 12% | 7% | 9% |
| SimCorp A/S | 8,5% | 9% | 29% | 29% | 27% | 27% |
| Hexagon AB (publ) | 4,9% | 11% | 31% | 36% | 26% | 28% |
| Volue ASA | 6,4% | 17% | 10% | 20% | 6% | 14% |
| Vitec Software Group AB (publ) | 11,2% | 9% | 26% | 35% | 14% | 19% |
| LINK Mobility Group Holding ASA | 71,1% | 23% | 3% | 10% | n/a | 4% |
| Glantus Holdings PLC | 73,7% | 45% | 7% | 23% | 5% | 6% |
| Ørn Software Holding AS | n/a | 53% | 14% | 17% | n/a | n/a |
| Mercell Holding ASA | 88,4% | 52% | 4% | 20% | n/a | 2% |
| SmartCraft ASA | 52,5% | 28% | 31% | 38% | 18% | 31% |
| Tecnotree Oyj | 15,6% | 18% | 30% | 42% | 29% | 40% |
| | **38,8%** | **28,0%** | **17,7%** | **25,6%** | **16,5%** | **18,0%** |

*Source: S&P Capital IQ*

Compiled by authors

## Appendix 20: G+M regression analysis

| Company | EV/Sales FY22 | CAGR FY20-FY23 | Avg. EBITDA margin | G+M | Slope | Intercept |
|---|---|---|---|---|---|---|
| Entain Plc | 2,7x | 11,4% | 17,0% | 28,4% | 16,239 | -2,513 |
| Kambi Group plc | 4,4x | 17,0% | 22,5% | 39,5% | | |
| Aspire Global plc | 2,0x | 10,1% | 16,1% | 26,3% | | |
| Playtech plc | 2,3x | 10,1% | 19,9% | 29,9% | | |
| Betsson AB | 1,0x | 5,3% | 20,1% | 25,4% | | |
| Kindred Group plc | 1,6x | 8,5% | 18,4% | 26,9% | | |
| LeoVegas AB (publ) | 0,9x | 7,1% | 11,1% | 18,2% | | |
| 888 Holdings plc | 1,3x | 13,5% | 15,3% | 28,7% | | |
| Stillfront Group AB (pul | 3,4x | 15,7% | 25,4% | 41,1% | | |
| Logitech International S | 2,4x | 21,7% | 12,0% | 33,7% | | |
| IAR Systems Group AI | 3,7x | 8,5% | 27,3% | 35,9% | | |
| LINK Mobility Group H | 1,7x | 22,5% | 1,8% | 24,4% | | |
| Mercell Holding ASA | 5,4x | 51,6% | -0,8% | 50,8% | | |
| Tecnotree Oyj | 5,7x | 17,9% | 26,6% | 44,5% | | |

*Source: S&P Capital IQ*

Compiled by authors

## Appendix 21: EBITDA regression analysis

| Company | EV/EBITDA FY22 | EBITDA CAGR FY20-FY23 | Slope | Intercept |
|---|---|---|---|---|
| Entain Plc | 12,0x | 22,4% | 43,326 | 0,765 |
| Aspire Global plc | 10,9x | 22,0% | | |
| Playtech plc | 9,2x | 27,7% | | |
| Betsson AB | 5,7x | 5,9% | | |
| LeoVegas AB (publ) | 6,6x | 11,1% | | |
| 888 Holdings plc | 7,8x | 17,4% | | |
| Logitech International S.A. | 14,0x | 36,8% | | |
| Sinch AB (publ) | 25,4x | 51,1% | | |
| Volue ASA | 28,9x | 58,4% | | |
| LINK Mobility Group Holding ASA | 14,4x | 39,1% | | |
| Tecnotree Oyj | 12,6x | 28,9% | | |

*Source: S&P Capital IQ*

Compiled by authors