

Evolution

BJI view: strong buy

Description

Evolution AB (EVO:ST) is an online casino game creator based in Sweden, with approximately 800 clients across the globe. They produce live casino games like blackjack and roulette with live dealers, streamed online for end-customers. They also create and produce random number generator (RNG) games like online slot games. Evolution licences them to gaming operators (888 Casino, betfair for example), who then provide those games to their customers. Evolution makes money by charging the operators commissions and share of profits from the games.

Strengths

- Limited competition – Playtech is the other major player in the space.
- Profitability requires scale – it would be difficult for operators themselves to gain scale due to regulatory requirements across multiple jurisdictions.
- Online casino has been growing at 24% CAGR over last 5 years, and yet land-based casinos still make up 78% of the market. In other words, there is plenty of growth and market share to win.
- Evolution themselves are rarely directly subject to regulatory requirements, allowing them to more easily licence games globally.
- Founder operated company with reasonable insider ownership
- Low capital intensity

Risks

- Barriers to entry for RNG is lower and more competition may emerge
- Top 5 customers make up 41% of revenue and losing any to competition would have a material impact

Competitive advantages

Evolution is the market leader in the space with only one competitor in Playtech. As one of the first movers, they have licencing agreements with all the worlds leading operators. They have been acquiring smaller RNG creators as they seek to acquire and retain top talent in game creation and innovation. Ultimately the only way to stay on top is provide more entertainment to end-users than any other provider. The business model is far superior to operators, who bear the bulk of the regulatory burden and face much stiffer competition.

Why does the opportunity exist?

Evolution's revenue growth has slowed from 54% in 2021 to an expected 15% in 2024. While we still expect double digit growth to continue for longer, Evolution has been oversold on growth concerns. Evolution suffered union strike action at a studio in Tbilisi in 2024. This has been largely resolved and Evolution have other studios around the world that can absorb the workload. Given the low cost of Evolution moving business away from Georgia, we don't think any disruption in Tbilisi (political or union) will have a long-term impact on the business.

Management

Jens von Bahr is the Chairman and co-founder of Evolution, and owns 11% of the company. Having seen that online betting was becoming more popular, but initially dominated by sports betting, he saw the opportunity in online casino and founded Evolution in 2006.

Share Price	SEK 850
Market Cap	€16.1 bn
Revenue 2023	€1.8 bn
Operating profit (loss) 2023	€1.1 bn
Profit (loss) after tax 2023	€1.1 bn
Dividend yield	3.5%
Average Daily Trading Volume	705,933
Inside ownership	14%

CAGR since IPO	47.3%
P/E (TTM)	14.1
P/E (FWD)	12.2
Operating margin	64%
FCF yield	6.4%
Capex / sales	5.2%
ROE	26.9%
ROIC	24.5%

Revenue CAGR (5yr)	37.5%
FCF CAGR (5yr)	48.0%

Debt / equity	0%
P/B	4.2



Source: tradingview.com