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Ticker EVO (STO)
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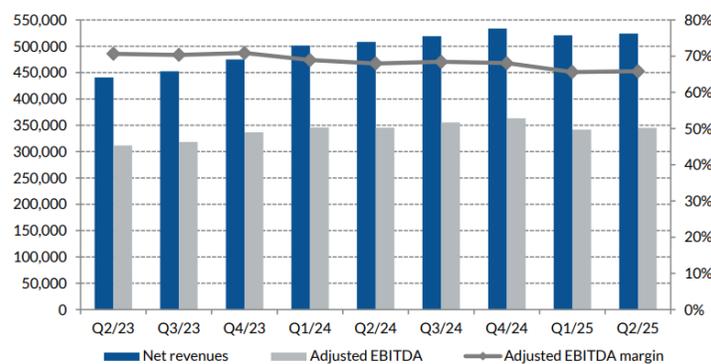
Evolution AB (EVO:ST) is an online casino game creator based in Sweden, with approximately 800 clients across the globe. They produce live casino games like blackjack and roulette with live dealers, streamed online for end-customers.

Q2 2025 earnings

EUR millions	Q2 2025	Q2 2024	% change
Live revenue	453.7	438.1	3.6%
RNG revenue	70.6	70.3	0.4%
Revenue	524.3	508.4	3.1%
Operating income	306.4	311.1	-1.5%
Net income	248.3	269.1	-7.7%
FCF	192.3	280.2	-31.4%
EPS	1.22	1.28	-4.7%
Operating margin	58.4%	61.2%	-2.8%
Equity	3,729	3,679	1.4%
RoE (annualized)	26.6%	29.2%	-2.6%
Revenue from regulated markets	44%	39%	5%

Quarterly Results Trends

Quarterly results trend



Financial Highlights

- Revenue was up 3.1% YoY, with growth estimated at 8.8% if adjusted for changes in FX rates.
- Revenue growth varied across regions with North America growing at 22.9% YoY, Asia growing at 4.2% but Europe revenue seeing a 5.8% decline due to regulatory ring-fencing.
- Margin compression was expected as new studio setups raise personnel costs, whilst regulatory ring-fencing impacts Europe revenue growth. We don't expect to see margins compress too much further.
- The decline in FCF represented a ~€20m decline in net income with a ~€70m change in net working capital that bears no relevance to future FCF. Capex was little changed at €33m for Q2 2025 vs €32m for Q2 2024.

- Cash was returned to shareholders through a €572m dividend payment (4.1% yield) and through €65m of share buybacks. Evolution have repurchased 3.4% of outstanding shares over the last 12 months.
- The balance sheet remains strong with €0 debt, €607m of cash and equivalents, and €3.73bn of equity.

Operational Highlights

- Evolution opened their first studio in Asia, based in the Philippines. This is an important step towards boosting regulated revenue in Asia.
- Following Brazil's new regulatory framework introduced earlier this year, Evolution has also opened a new studio in Sao Paulo (it was opened after the end of Q2 reporting period).
- Evolution is continuing ring-fencing measures in Europe which is impacting revenue growth there. This essentially refers to ensuring that customers in a given jurisdiction receive games only from operators who are licensed in that same jurisdiction. However, details are light and it is unclear how Evolution and regulators are aiming to solve this issue.
- CEO Martin Carlesund said he is happy with the progress that Evolution is making combatting cyber-crime (hijacking of live streams) in Asia. However, few details or quantifiable data are provided and so it is difficult for us to assess the progress being made, the costs of addressing it or the quantifiable impact on revenue.
- Evolution entered into an agreement with Hasbro, to become their exclusive global provider of casino games, including Monopoly.

CEO Comments

- CEO Martin Carlesund: "In the first quarter Evolution reported a deceleration of the growth rate year-on-year, mainly due to proactive and conscious actions that permit us to stay ahead of the curve in the regulatory landscape. The second quarter is more in line with our expectations given the challenges we face in Asia, and the proactive measures we are taking regarding ring-fencing in Europe. To be clear though, we are not satisfied with this quarter's growth, and we are working hard to increase the pace. However, operationally speaking we are where we set out to be at the beginning of the year."
- CEO Martin Carlesund privately purchased €6m of shares in June 2025.

Ben Jones Investments Outlook

- The share price rallied 8% on the day following the earnings announcement. Overall, we felt earnings were in line with expectations and that the rally was more a reflection of repricing an undervalued business following a dramatic and excessive sell-off following the Q1 earnings announcement.
- Ultimately, we see ring-fencing as a long-term positive for Evolution. Higher regulatory barriers raise barriers to entry for competitors and favour large incumbents who have the capital and personnel to jump the regulatory hurdle. Evolution is the largest incumbent with about 80% market share in online live casino. Small margin erosion is a price well worth paying to widen the moat.
- Evolution was priced as if it would experience no growth at all going forward. Given that online casino has been growing at a 24% CAGR over the last 5 years and still only makes up 22% of the casino market (78% share for land-based casinos), the prospect of Evolution failing to grow going forward seems misplaced and mispriced.
- 56% of revenue comes from unregulated markets which presents a risk, but it's difficult to see how that revenue is severely impacted. If governments were able to shut it down, they would have already done it. It would seem more sensible that governments would move towards regulation (as Brazil has done recently), and a move towards regulation would help Evolution. That risk does remain but it seems overly priced in.
- The RNG market is more competitive and growth for Evolution here has been slower than live casino. RNG growth is something we're watching closely.

- We see good growth opportunities across North America and Latam, and expect those regions to help buoy growth as ring-fencing in Europe continues. We can see those opportunities being explored via the new studio in Sao Paulo and the agreement with Hasbro.
- Evolution's dividend policy is to pay out at least 50% of net income. We would prefer to see more aggressive share repurchases at current prices but acknowledge that the capital allocation policy is almost certainly not going to change.
- Insider ownership is around 14% and we were pleased to see the CEO privately purchase €6m of stock in Q2.