Ben Jones Investments
Equity Research

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Ticker EVO (STO)
Price SEK 725.60
Sector Gaming software, Technology services
Website https://evolution.com/investors

Evolution

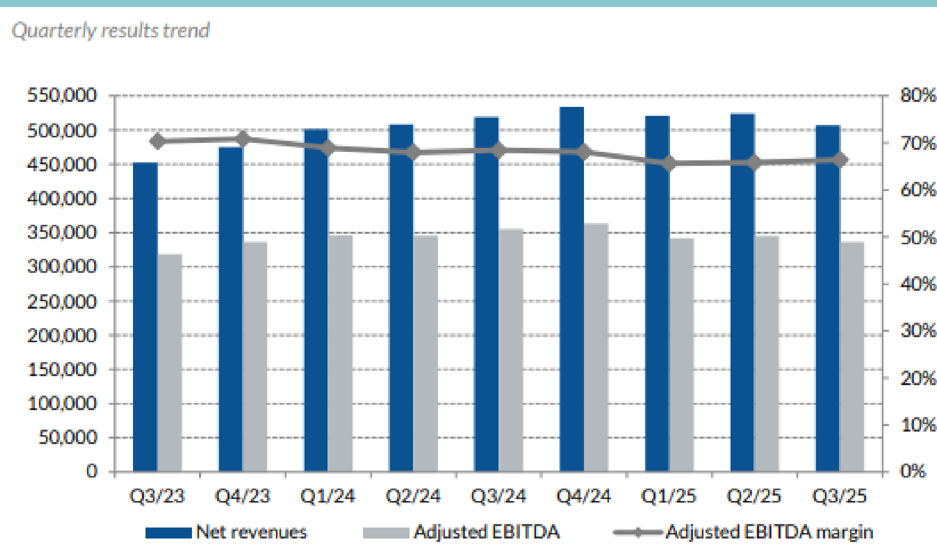
Evolution AB (EVO:ST) is an online casino game creator based in Sweden, with approximately 800 clients across the globe. They produce live casino games like blackjack and roulette with live dealers, streamed online for end-customers.

Q3 2025 earnings

EUR millions	Q3 2025	Q3 2024	% change
Live revenue	**432**	**447**	**-3.4%**
RNG revenue	**75**	**73**	**4.1%**
Revenue	**507**	**519**	**-2.4%**
Operating income	**297**	**379**	**-21.8%**
Adj operating income	**297**	**320**	**-6.9%**
Net income	**252**	**329**	**-23.2%**
FCF	**342**	**325**	**5.2%**
EPS	**1.25**	**1.57**	**-20.4%**

Operating margin	**58.6%**	**61.7%**	**-3.1%**
Equity	**3,820**	**3,768**	**1.4%**
RoE (annualized)	**26.4%**	**28.6%**	**-2.2%**
Revenue from regulated markets	**46%**	**39%**	**7%**

Quarterly Results Trends



Financial Highlights

- Revenue was down 2.4% YoY, recording Evolution's first ever quarterly YoY decline in revenue. Evolution estimate revenue growth at 3.9% adjusted for FX changes.
- Revenue growth varied across regions with North America growing at 14.5% YoY, Asia down 6.5%, Europe down 6.5% and Latam up 6.4%.

- Asia has faced continued pressure from cyber attacks that Evolution have yet to thwart. Evolution has struggled to clamp down on attacks without damaging legitimate end-user experience, and this has resulted in the revenue drop in Asia. The biggest concern for investors is not knowing how long this impact may last, or if it may ever fully be resolved and what the impact of that might look like.
- Headline decline in operating income and net income looks dreadful but Evolution recorded a €60m gain from the reduction of an earn-out liability in Q3 2024 that distorts the figures. In reality, operating income is down 6.9% YoY. Whilst not great, it is not as serious as headline figures would suggest.
- Margins remained stable following cost control measures and were in-line with expectations. We expect margins to depend on business in Asia – resolution of the issues there would keep margins stable but further deterioration would lead to some margin decline as well as the obvious revenue decline.
- Evolution has completed their ring-fencing of Europe and expects to see growth from here. Europe grew 1.1% QoQ following two consecutive quarters of decline from Q4 2024 highs.
- FCF was up 5.2% but this was due to changes in working capital. Otherwise FCF would be down 4-5%, similar to the change in net income adjusting for the one-off reduction in an earn-out liability.
- Cash was returned to shareholders through €187m of share repurchases in the quarter. This takes YTD capital returns to €978m – €572m of dividends and €406m share repurchases.
- The balance sheet remains strong with €0 debt, €656m of cash and equivalents, and €3.82bn of equity.

Operational Highlights

- Evolution launched Ezugi as the second live casino brand in the US.
- Expansion of Evolution's RNG portfolio with the launch of Sneaky Slots, a bold new slot studio.
- Evolution are already looking to expand the new studio in São Paulo that opened in Q2.
- The results of the investigation by the UK Gambling Commission are expected by year-end.
- Evolution discovered that major competitor Playtech was responsible for commissioning a 2021 report by Black Cube that accused Evolution of allowing users access to games in unlicensed countries. The report was submitted to the New Jersey regulator and the investigation was subsequently closed in 2024 without action.

CEO Comments

- CEO Martin Carlesund: "We have not been satisfied with the growth so far this year and that sentiment has not changed in this quarter. However, a difference compared to the first half of the year is that performance in Europe, North America and Latin America is decent to good. Unfortunately, revenue development in Asia is still very far from satisfactory. We continue to fight the cyber criminality that has affected our business there for too long, and during the quarter we didn't progress as much as we would have wanted. The fight is a constant balancing act between taking countermeasures that are too stringent – which create issues for legitimate end-users – and too light, which don't yield the desired effects. During the third quarter, we over-extended our countermeasures and our revenue was affected negatively.
- CEO Martin Carlesund privately purchased €6m of shares in June 2025.

Ben Jones Investments Outlook

- The share price fell 7% on the day following the earnings announcement. This was of course due to weaker than expected revenue and the persistence of issues in Asia that may last longer than investors initially expected. This will be a key aspect to watch going forward, as will revenue growth in Europe given that ring-fencing measures have now been completed.

- 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. However, it is important to keep an eye on European revenue figures. Any further weakness here would be a concern.
- 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.
- 54% of revenue comes from unregulated markets which presents a risk, but it’s difficult to see how that revenue is severely impacted beyond the cyber-attacks. 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 and the Philippines have done recently), and a move towards regulation would help Evolution. That said, India has moved in the opposite direction with a ban on online gambling. The 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 (bar the most recent quarter). 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.
- Playtech was unveiled as the client who commissioned a report by Black Cube into illegal practices by Evolution. The Black Cube report was presented to the New Jersey regulator and closed without action in 2024. I would expect Evolution to sue for defamation and it is likely we see legal action between the two companies going forward. For now, it is too early to anticipate the result of such a legal battle.
- 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.