Twitter Thread by Modelio Equity



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1.Evolution is our top pick heading into February. We assess the company's moat and long-term growth rate as highly misunderstood and often viewed upon with, in our view, undeserved skepticism.

2.We view the acquisition of NetEnt as a rare combination of revenue and margin expansion with tangible opportunities to leverage upon. It is our understanding that Evolution will further strengthen the offering and move more towards becoming a one-stop-shop for operators.

3.With the help of NetEnt's offering, Evolution will be able to penetrate new markets faster. Furthermore, we assess that Evolution, who are known for their innovation, will infuse new life into NetEnt's own product line.

4.We also see synergies from the acquisition on the cost side. Evolution's management is renowned for running a tight ship with a focus on profitability, something we got a glimpse of as they announced a large restructuring on the day of the acquisition.

5. In addition, from our research, Playtech's largest competitive advantage compared to Evolution is its ability to offer more services than just live casino.

6. Playtech has mostly used its live casino as an add on for their RNG/Slots games. With the acquisition of NetEnt, Evolution can also offer more than live casino.

7. We think, and all research points towards it, that starting a successful live casino requires huge know-how and large upfront investments. On top of that, it would take several years before reaching break-even.

8. To quantify our statement, we have good sources indicating that starting a live casino business requires about €30m in initial investment, and an additional €20m before reaching break-even.

9. It is to our understanding that Evolution keeps increasing the gap to competitors, due to both scalability and innovation power.

10. Thus, with online casino still having a relatively small penetration on the overall casino market, we see a huge growth opportunity for Evolution going forward.

11. We have seen the market underestimating Evolution’s long-term growth prospects since their IPO back in 2015 and can see that they are continuing to estimate a slowdown in growth.

12. Within the gambling space there are always regulatory risks. Historically, these regulatory ramifications have been affecting more operators rather than suppliers. As always, it is important to keep close tabs on the competition and the competitor’s product launches.

13. All the data suggest that revenue growth has accelerated during Q4’20 and January. In our opinion, Evolution's current valuation reflects a stagnation in revenue growth, and the market is not putting enough attention to the high-likelihood of a long-tail growth.

14. We see exceptional good R/R in the coming 6-12 months and estimate that Evolution will generate annual operating profits of >€1b within three or four years.