

Disclaimer: As of the publication date of this report, Alta Fox Capital Management, LLC and its affiliates (collectively, “Alta Fox”), have long positions in Evolution Gaming Group AB Holdings Inc. (the “company” or “EVO”). Alta Fox stands to realize gains in the event that the price of EVO’s stock increases. Following publication, Alta Fox may transact in the security of EVO. All expressions of opinion are subject to change without notice, and Alta Fox does not undertake to update this report or any information herein. Please read our full legal disclaimer at the end of this report.

Alta Fox Capital’s Analysis of Evolution Gaming’s (EVO) Competitive Advantages

Introduction

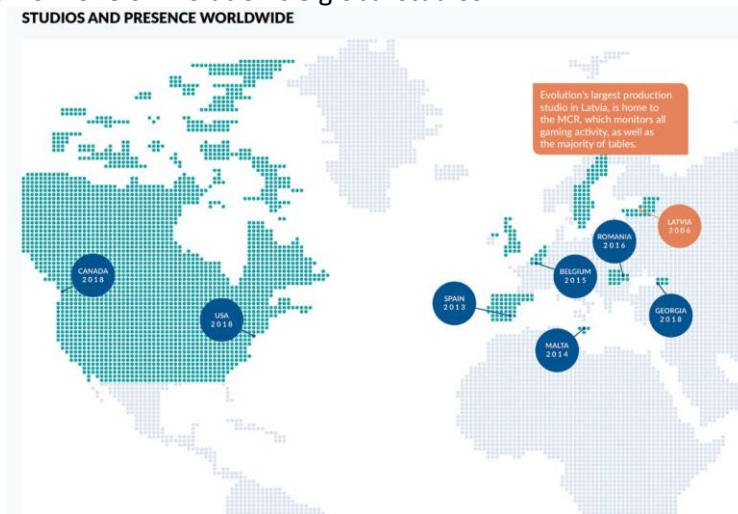
Evolution Gaming (“EVO”) works with B2B operators to provide Live Casino Games, dominating the European market with 70%+ market share. EVO is an exceptionally high-quality business due to its impressive returns on capital, long growth runway, increasing market dominance, and significant scale advantages. EVO generates 55% EBITDA margins with *sustainable* 40%+ organic revenue growth and is on track to see further margin expansion as it leverages its scalable business model. With 30% organic revenue growth and 200bps of EBITDA margin expansion p/y going forward, EVO can grow EPS +40% for the foreseeable future. The co-founders own over 30% of the company and have retained 90% of their share ownership even with EVO’s 80%+ annualized TSR over the last 5 years.

The purpose of this document is two-fold:

1. Identify the ingredients of success for EVO (how the model works & why it has been successful)
2. Examine *potential* competitive threats from existing casino operators looking to take Live Casino in house as well as 3rd party game development companies looking to get into the live casino business by analyzing EVO’s economic moat

Business & Industry Overview

Live Casino brings the brick & mortar casino experience to a user’s phone, computer, or other streaming device. Contrary to typical digital casino games which feature no physical human interaction, Live Casino is 100% focused on seamless interaction between gamblers playing from all over the world and the dealer streaming live from one of Evolution’s 8 global studios.



EVO offered 27 distinct games at the end of FY19 and is on track to offer 39 distinct games by the end of FY20. Many of these offerings are derivatives of existing games such as lightning roulette, or entirely new games developed by EVO such as Monopoly Live. EVO licenses these games to online casino operators but carries the responsibility of running the games themselves through dedicated (unique table servicing one casino operator) and non-dedicated (non-unique tables servicing an infinite number of casino operators) tables. Typical contracts are ~3 years.

In a traditional casino setting, games such as Baccarat and Roulette are not scalable because they can only serve a fixed number of players at a time. In contrast, the majority of EVO's games can support a limitless number of players betting at the same time, while bearing none of the other overhead costs a traditional casino would have to bear (i.e. free drinks to players, casino maintenance expense, etc). **Therefore, with EVO's model, the live dealer salary becomes a fixed cost which can be leveraged across hundreds of potential concurrent players instead of just a few players at a traditional casino table.** EVO's scalability results in far more attractive unit economics than any land-based casino can offer. By integrating augmented reality, tactically adjusting bonuses and payouts, and optimizing player-dealer communication, EVO's offering is more immersive than the experience at a brick & mortar casino. Due to their superior unit economics and product offerings, EVO has outperformed the gambling industry with a 47% revenue CAGR since 2016 and EBITDA margins of 55% while typical casinos grow topline mid-single digits and operate at 20-30% EBITDA margins.

Examples of EVO's games:

Live Blackjack



Live Baccarat



Monopoly Live (interactive game show with healthy dose of augmented reality)



EVO's superior unit economics compared to land-based casinos are also due to the fact that EVO has zero customer acquisition costs (which are incurred by the casino operators that partner with EVO). As players bounce between casino operators, they are still playing EVO's games. While EVO spends next to nothing on marketing, EVO still capitalizes on the upside from newly acquired players.

The vast majority of EVO's revenue is derived from a ~10% take-rate of all revenue generated by casino operators licensing EVO's games. For example, if Joe Smith lost \$10 last Friday night playing Live Blackjack on Fanduel's Live Casino product (supported by EVO), EVO would earn \$1 in revenue. Note that if Fanduel were to lose money to the customer, EVO would not be responsible for participating in that loss.

The biggest risks B2B gambling providers generally face are customer concentration and regulation. EVO is one of the lowest-risk B2B gambling providers, with their top customer representing only 6% of revenues in FY19, and their top country (UK) representing only 14% of FY19 revenues.

The following secular tailwinds have been instrumental in driving overall industry live casino growth:

1. Lower latency internet and broadband
2. Better camera and streaming technology
3. Improvement of mobile technology
 - a. In FY14, 13% of EVO's revenue came from mobile devices
 - b. In FY19, 67% of EVO's revenue came from mobile devices
4. Regulation of iGaming in various countries expands EVO's TAM (i.e. UK, Italy, Spain, US)
5. Big data utilization allowing casino operators to target customers more effectively
6. Cross-selling digital sports betting with iCasino
7. General de-stigmatizing of gambling

Competitive landscape:

Evolution Gaming and Playtech were early pioneers in the live casino industry in the mid-2000s. While EVO chose to focus solely on their live casino product, Playtech's focus was spread thin amongst their many divisions (digital table games, digital poker, sports betting solutions, digital slots, land-based slots, back-end offerings, etc.). EVO significantly outperformed Playtech due to Playtech's lack of focus and innovation in live casino. Today we estimate EVO's live casino revenue is 5x Playtech's live casino revenue.

Since 2006, Netent (a digital slots provider) is the only significant competitor to emerge in the European live casino market. We estimate EVO's live casino revenue is 50x the size of Netent's and this gap is still increasing.

While live casino originated in the Asian market, the Asian market remains more fragmented than the European market today. This is partly due to the regulatory environment as some countries in Asia are black markets (illegal to operate—and EVO does not participate in these markets) and some are grey markets (no specific regulation but live casino is allowed). During the early days of live casino in Europe, Asian live casino providers attempted to enter the market but could not compete successfully against EVO and Playtech. While Asian live casino providers tried their hands and failed in Europe, EVO has had

phenomenal success in Asia in recent years. Despite EVO not having any dedicated Asian studios, EVO's market share is steadily growing in Asia with EVO's Asian revenue up 115% in FY19. Experts estimate the Asian live casino market to be 10x the size of the European live casino market. This helps validate our view that EVO's growth is still in the very early innings. We suspect that over time, EVO may partner with an existing Asian operator to gain regulatory expertise while utilizing EVO's superior technology and game IP.

EVO has been able to lead the Live Casino market for the following reasons:

1. First mover advantage, launching in 2006
 - a. Co-founders both had prior CEO and entrepreneurship experience
 - b. EVO's comparably long operating history in Live Casino (since 2006) allows EVO to utilize its own data to help customers optimize Live Casino offerings for their specific player base
2. Unparalleled execution
 - a. Solely focusing on developing live casino games for over a decade allowed EVO to build a better product than competitors
3. Industry experts have cited that ROIs on EVO's games are significantly higher than competitors
4. EVO has developed a pristine brand amongst both players and their casino customers for offering a high-quality product
5. EVO continues to be at the forefront of game innovation:
 - a. Launched 1 new game in 2016
 - b. Launched 3 new games in 2017
 - c. Launched 8 new games in 2018
 - d. Launched 9 new games in 2019
 - e. Launching 12 new games in 2020
6. Management and the founders are supremely focused on maintaining a product gap vs competition, and frequently refer to it in their earnings calls and updates
 - a. "Evolution's perpetual mission is to increase the gap to the competition. Already today, Evolution has clear leadership in the Live Casino market and aims to keep its growth momentum." – 2019 Annual Report
7. Scale advantages (see below)

EVO benefits from numerous scale advantages such as the following:

- Capacity utilization
 - o As of FY19, EVO had over 700 tables operating throughout their network (up from 300 in FY16).
 - o EVO offers hundreds of games 24/7 and utilizes their global network to manage capacity (especially useful during a crisis like COVID-19).
 - In order to be a meaningful competitor to EVO, one also needs a global studio presence, unique games that will draw an audience, and capacity to offer volumes of standard games in multiple languages.
 - A subscale competitor is either going to:
 - a) have a small number of tables and game offerings which will lead to a bad customer experience (not enough dealers, not enough games, not operating 24/7), or

- b) will have more tables than they need which will dilute their ROI on both their fixed cost investment and variable labor. The more scale a live casino operator has, the more it can use its capacity across regions to optimize ROI over time.
 - Given EVO’s large geographic footprint and high volume of tables, the company can easily offer games in numerous languages 24/7.
- Network effects
 - The more people playing, viewing, and commenting on a live casino game enhances the experience for players. People want to play with their friends and EVO is helping to revolutionize the social experience of gambling. Being the largest Live Casino operator means that EVO’s games have multiples of traffic vs. non-EVO Live Casino games.
- Best-in-Class provider (“Nobody got fired for hiring IBM”)
 - EVO is widely considered the industry leader with the best proprietary game IP. If a casino’s live dealer offering uses a provider that provides a worse experience, the casino risks losing their customer to an alternative online competitor.
- Unique portfolio of games
 - While EVO’s initial market offerings in the mid-2000s were live versions of classic games like Blackjack, Baccarat, and Roulette, EVO’s most popular games today are their **proprietary** games that are either enhancements to traditional games (i.e. Lightning Roulette) or entirely unique games (Monopoly Live). If casino operators want to offer these games, they must use EVO’s live casino solution.

▪ **Recent game launches:**

2014	
• Live Three Card Poker	
2015	
• Live Caribbean Stud Poker	
2016	
• Live Ultimate Texas Hold'em	
2017	
• Dream Catcher	• Live Caribbean Stud Poker Progressive Jackpot
• Live Casino Hold'em Jumbo 7 Jackpot	
2018	
• Lightning Roulette	• First Person Roulette
• Salon Privé range	• First Person Blackjack
• Dragon Tiger	• Live Texas Hold'em Bonus Poker and First Five Jackpot
• Infinite Blackjck	
• Football Studio	
2019	
• MONOPOLY Live	• 2 Hand Casino Hold'em
• Deal or No Deal Live	• First Person Lightning Roulette
• Lightning Dice	• First Person Dream Catcher
• Super Sic Bo	
• Free Bet Blackjack	
• Side Bet City	

- It is cheaper for EVO to invest in new games on a per player basis than it is for competitors since EVO has the majority of player traffic on their games. This gives EVO

the “Netflix advantage.” Because they have the most users, their spend on new IP on a per user basis will always be lower than competitors. This makes it very likely that EVO’s game IP advantage will grow over time, creating a virtuous cycle of market share gains.

- Licensing, regulatory expertise, and security
 - EVO has attained over 10 licenses needed to offer their services in their respective geographies (see appendix for details).
 - This process can be expensive and time consuming, and operators with a poor reputation or no reputation can have a hard time getting a license.
 - As an example, the growing US iGaming market has a complex state by state regulatory scheme. To date, NJ and PA have set into law that live casino studios must be built within the respective state to service residents in the state. This further prohibits competition from entering the market as player scalability will be more limited, making ROIs less certain.
 - This also discourages casino operators from taking the risk of purchasing cheaper dedicated tables with EVO’s competitors. The smaller market sizes will justify fewer dedicated tables and given EVO’s product is known for maximizing casino operator ROI, we expect operators to be even more likely to choose EVO.
 - In addition to receiving a license to offer games, operators also must get each individual game approved by the regulating body.
 - EVO has a 24-hour digital security team which monitors equipment, live dealers, and gaming patterns, aiming to optimize security and prevent against fraud. EVO’s monitoring system can be easily integrated with casino operators existing security platforms.
 - Ensuring that operations are in compliance with respective governing bodies and that player/customer data is kept safe is of critical importance for B2B gambling service providers, as data breaches and undetected player fraud can destroy reputations.
- High switching costs
 - Dedicated tables with EVO can cost tens of thousands of dollars and the average contract length is ~3 years. If a casino operator were to let their contract with EVO expire, the operators would lose their upfront investment in their dedicated tables.
 - Certain dealers are quite popular with customers. If a casino operator wants to let its contracts with EVO expire, not only will it lose EVO’s games, but it will also lose access to EVO’s dedicated and non-dedicated dealers. Not having the original dealers that many players develop comfort and loyalty to could cause immediate churn off the casino operator’s platform.
 - EVO’s most popular games are proprietary. Casino operators that leave EVO will no longer be able to offer the same games to their customer base. This would cause churn off their platform as those players seek to find their old games by playing on other casino operators’ platforms.

Conclusion

- Competition has historically been unsuccessful in taking share from EVO and we believe this will remain the case going forward as EVO reinvests significantly more than competition into their product. EVO's proprietary portfolio of games will continue to grow and become increasingly essential to casino operators.
- The social network effects present that EVO offers by having many players concurrently on their games should not be understated, as more players simultaneously playing a game *improves* the live casino experience for players. This is something that no competitor can currently hope to offer, as active players on EVO eclipses competition by a large margin.
- Management has made it abundantly clear to shareholders both in their statements and actions that their primary goal is to continue to lead the live casino market by offering the best product with the best execution. We think management has executed very well thus far, and that EVO's moat will only grow over time.

Legal Disclaimer

- Alta Fox Capital Management, LLC (“Alta Fox”) is an investment adviser to funds that are in the business of buying and selling securities and other financial instruments. This report is provided for informational purposes only and does not constitute investment advice or an offer or solicitation to buy or sell an interest in a private fund or any other security. An offer or solicitation of an investment in a private fund will only be made to accredited investors pursuant to a private placement memorandum and associated documents.
- Alta Fox currently has a long position in Evolution Gaming Group AB Holdings Inc. (“EVO”) common stock.
- Alta Fox will profit if the trading price of EVO common stock increases and will lose money if the trading price of common stock of EVO declines.
- Alta Fox may change its views about or its investment positions in EVO at any time, for any reason or no reason. Alta Fox may buy, sell, or otherwise change the form or substance of its EVO investment. Alta Fox disclaims any obligation to notify the market of any such changes.
- The information and opinions expressed in this report are based on publicly available information about EVO. Alta Fox recognizes that there may be non-public information in the possession of EVO or others that could lead EVO or others to disagree with Alta Fox’s analyses, conclusions, and opinions.
- The report includes forward-looking statements, estimates, projections, and opinions on EVO, as well as more general conclusions about EVO's anticipated operating performance. Such statements, estimates, projections, opinions, and conclusions may prove to be substantially inaccurate and are inherently subject to significant risks and uncertainties beyond Alta Fox’s control.
- Although Alta Fox believes the report is substantially accurate in all material respects, Alta Fox makes no representation or warranty, express or implied, as to the accuracy or completeness of this report or any other written or oral communication it makes with respect to EVO, and Alta Fox expressly disclaims any liability relating to the report or such communications (or any inaccuracies or omissions therein). Thus, shareholders and others should conduct their own independent investigation and analysis of the report and of EVO and other companies mentioned.
- Except where otherwise indicated, the report speaks as of the date hereof, and Alta Fox undertakes no obligation to correct, update, or revise the report or to otherwise provide any additional materials. Alta Fox also undertakes no commitment to take or refrain from taking any action with respect to EVO or any other company.
- Additional information about Alta Fox can be found on its website, [www. altafoxcapital.com](http://www.altafoxcapital.com), the use of which is subject to a User Agreement, which can be found at [www. altafoxcapital.com/disclaimer](http://www.altafoxcapital.com/disclaimer).