

Online Gambling

An emerging e-commerce mega-category

November 2020

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Who is LVS Advisory



- Full-service investment firm based in New York City
 - Separately managed accounts
 - Financial planning
 - Consulting services for institutional investors
- Two actively managed portfolio strategies:
 - Defensive Portfolio
 - Generate stock market-like returns (~10% annualized) while taking less risk
 - Diversified portfolio of event-driven stocks, bonds, preferred stocks, dividend stocks, and other special situations
 - 0.4 S&P 500 correlation; 1.9 Sharpe Ratio
 - Growth Portfolio
 - Maximize long-term investment results
 - Focused portfolio of 15 – 25 global stocks
 - Industry emphasis: consumer, B2B, and software
 - 40%+ annualized net return since inception

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Online Gambling

Industry thesis

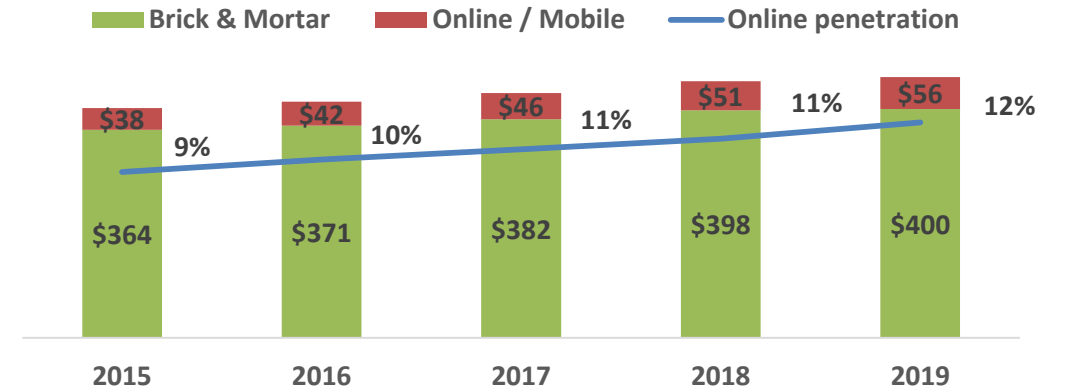
Online Gambling Growth Opportunity

- Casino gambling is a \$450 billion global industry growing above the rate of GDP
- One of the most compelling offline to online industry transitions yet to play out
- U.S. sports betting and online casino could reach \$30+ billion addressable market
- Covid-19 pandemic has accelerated trends in legalization and penetration
- Many online gaming companies are high-quality and benefit from “internet economics”

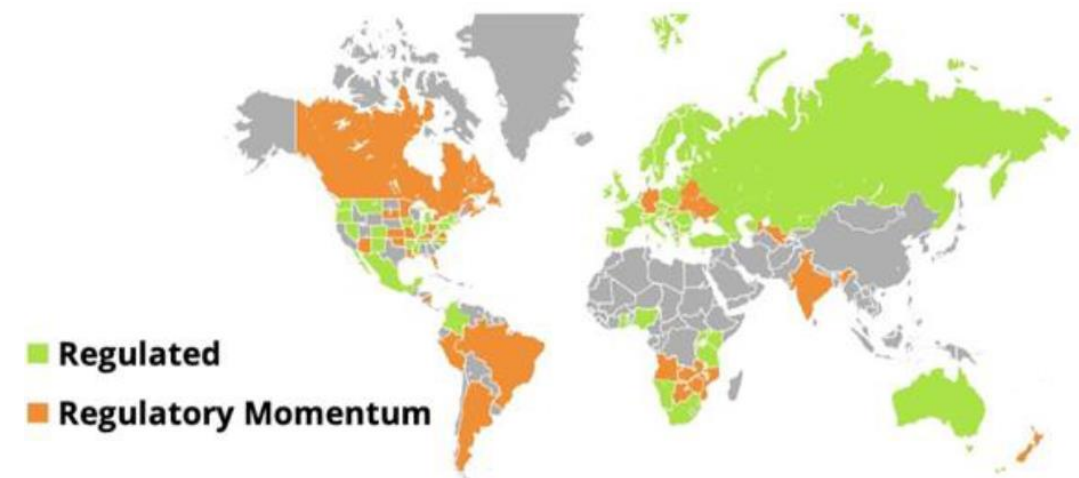
Global Market Size

- Global casino gambling market worth ~\$456 billion in 2019
 - Overall industry pie is growing 2% - 4% per year
- Online gambling market was worth ~\$56 billion in 2019
 - Growing ~10% per year and gaining share from offline
 - Overall online penetration at ~12%
 - Online ~33% penetrated in Europe and gaining ground
 - Mature online penetration could be north of 50%
- Growth to accelerate in coming years as U.S. comes online and additional “grey markets” move to regulate the industry
 - Germany transitioning to a regulated market in 2021
 - Several Latin American and Asian markets expected to become regulated in the coming years
- Covid-19 has accelerated trends
 - Many long time casino goers have discovered and become accustomed to online game formats
 - On the margin, states are more likely to legalize and tax gaming revenue to help fill budget deficits

Global Casino Gambling Market



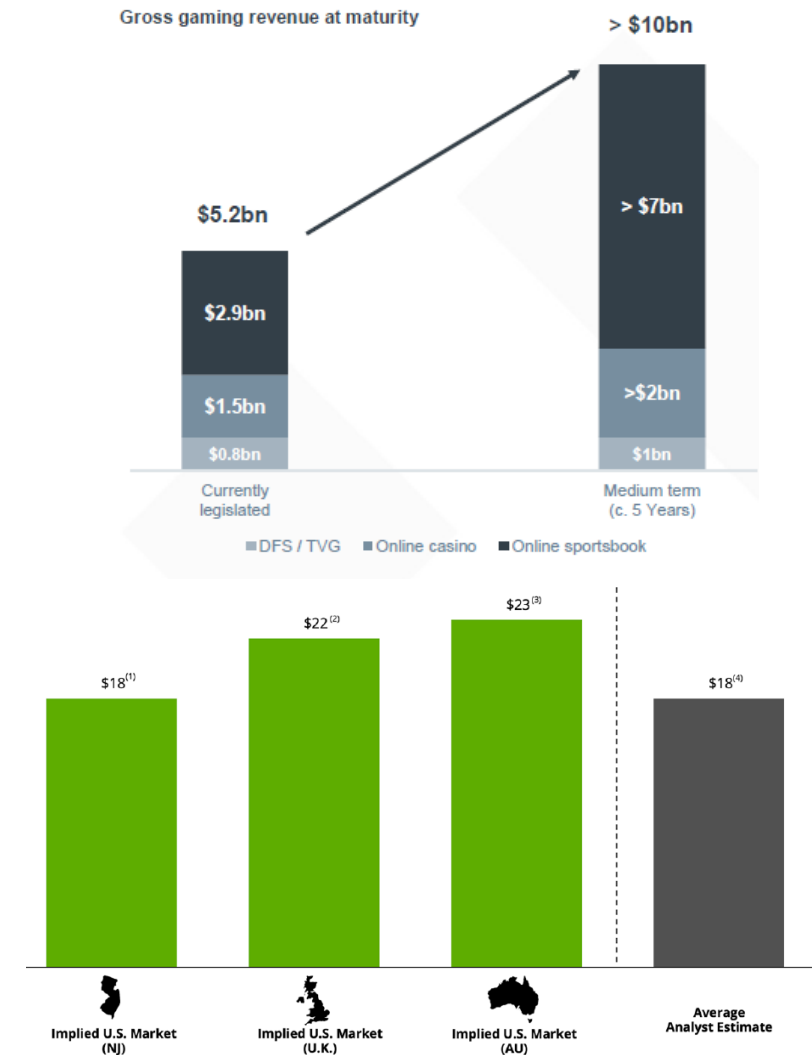
Regulation Gaining Momentum



Current Expectations for U.S. Online Gambling TAM

- 2018 PASPA repeal allows states to regulate sports gambling
 - 21 states + D.C. approved sports betting regulation
 - November 2020, Maryland, Louisiana, and South Dakota, also approved sports betting
 - However, the 4 largest population states are still outstanding (California, Texas, Florida, New York)...
- At maturity, ~40 states could legalize sports betting
 - Based on 42 states that legalized daily fantasy sports
- At maturity, 20 - 30 states could legalize online casino
 - Only a handful of states have approved and/or open today: NJ, PA, IN, MI, WV, NV, DE
 - There is a stronger moral/societal case against online casino, limiting its appeal vs. sports betting
- TAM estimates make an assumption for how many states will legalize online gambling and the average gross gaming revenues (GGR) per capita
 - The United Kingdom and Australia are mature markets that can provide an indication of what to expect; however, cultural and legal differences may persist

U.S. TAM expected to be \$10bn - \$20bn



Source: Flutter Entertainment & DraftKings investor presentations.

Why Expectations Will Likely Be Revised Higher

www.actionnetwork.com > legal-online-sports-betting ▾

U.S. Sports Betting Handle Hits Record as Casinos Bounce ...

Oct 7, 2020 — The eye-popping numbers reaffirmed sports betting's momentum in the ... The August 2020 revenue total was a 90.2 percent increase from ...

Fox Business

NJ smashes sports betting record, handling more than \$748M in September

SPORTS

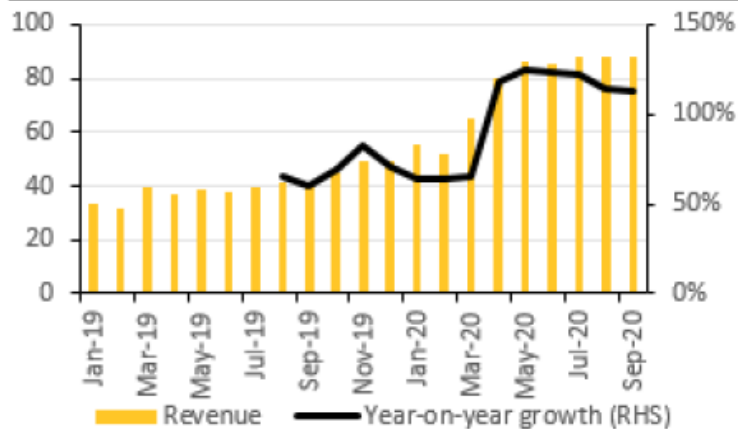
Legalized sports betting has had 'big influence' on increased NFL ratings, Giants co-owner says

Legal Sports Report

Nevada Sports Betting Handle Pushes US To New Monthly Record

Economic Reopening Hasn't Dented Online Casinos

Fig 4: NJ online casino revenue, Jan 19-Sep 20 (\$m)



Source: Redburn, NJDoGE

- COVID-19 increased the appeal of legalizing online gambling
 - A new source of tax revenue in backdrop of shortfalls
 - 3 states recently approved; 6 states have pending bills
- Demand has shattered expectations in early states
 - Sports betting handles surged past expectations even in mature states like Nevada
 - Online casino in early states PA & NJ exceed GGR per capita seen in Europe or Australia
 - Online casino gambling hasn't seen player activity decline as the U.S. has reopened land-based casinos
- Sports teams & media increasingly view betting as a way to drive more viewers, increase loyalty, and drive engagement
 - Sports betting becoming a pillar of the "culture"
 - Expect more media partnerships, team and player sponsorships
 - More socially acceptable to participate in betting
- Innovation can create new betting formats with broader appeal (for novices) and higher engagement (in-game bets)
- 2018 Total U.S. Gambling GGR = \$42bn, likely to exceed \$70bn by 2030 with significant online penetration

Why The Industry Will Produce “High-Quality” Businesses

- Online gambling platforms are consumer brands with differentiated appeal
 - Customer segmentation proven-out in Europe and Australia
 - Large budgets required to run brand advertising, strike significant media deals, attract key sponsorships
 - Unlocks pricing power for platforms and content providers at scale
- Platform scale benefits on both top-line and bottom line-drivers
 - Top-line benefits: brand reach, customer acquisition efficiency, ability to cross-sell customers to other content
 - Bottom-line benefits: back-end platform leverage, better odds making & balanced sportsbooks, negotiate better content deals, internal development of proprietary game content (smaller platforms lack exclusive content)
 - Scale players will generate high operating margins and weed out weaker competitors over time
- Non-trivial regulatory and operational barriers to entry
 - Requires regulatory licenses, significant compliance in handling of money (AML), regulated payouts, geofenced applications, age verification, etc.
 - Fundamentally a different business than operating a physical casino, more akin to running an e-commerce operation vs. running a resort; online pure-plays will outperform land-based incumbents

Flutter Entertainment

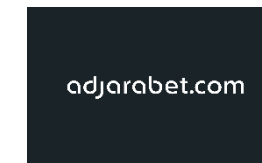
Best-in-class global platform

Flutter Entertainment Overview



- Flutter Entertainment PLC (ISE:FLTR) (OTC:PDYPY) is a global gambling business with a portfolio of leading brands
- **Best positioned among peers to benefit from global industry growth and the U.S. regulatory catalyst**
- Revenue driven by online gambling (90%) and sports betting (50%), but exposure to online casino and poker
 - Sports betting leader in the Europe, Australia, and U.S.
 - Global leader in horse betting and online poker
 - Differentiated online casino platform
- Strong regulatory & operating track record built over decades of experience in Europe & Australia
 - Advantaged vs. largely inexperienced U.S. operators
- Growth driven by acquiring key brands, improving operations, and driving synergies
 - Recently closed \$11bn acquisition of The Stars Group
- Executes a multi-brand strategy to target and capture multiple customer segments
- Best-in-class ability to acquire customers and maximize LTV

Flagship Brands



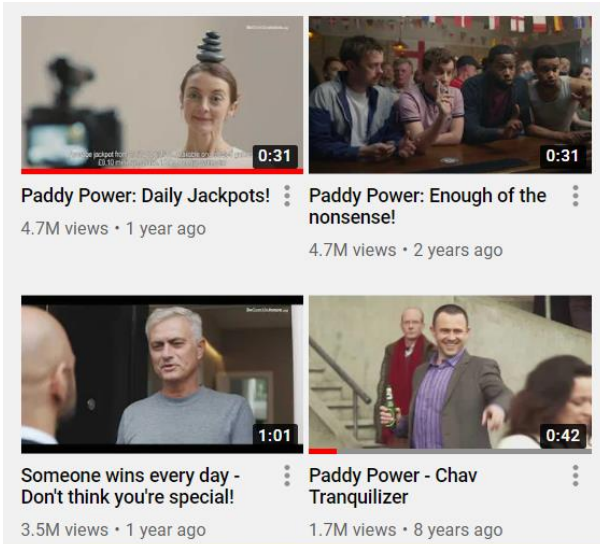
In the U.K. & Ireland, Flutter operates 2 distinct gambling brands appealing to different customers segments and capturing a larger overall slice of the market. Together, Flutter has over 40% of the sports betting market and continues to gain share

Paddy Power Brand

- Hybrid of online (~80%) and offline (~20%) betting with 383 retail betting parlors in the U.K. & Ireland
- Targeted at capturing the demographic who visit the over 6,000 local betting parlors located in the U.K. and Ireland and converting them to an online experience



- The brand is known for its light-hearted humor and mischief. Its advertisements are comedic, cheeky, and often controversial
- Paddy Power's ads are highly entertaining. On its YouTube page, many of its video posts have garnered millions of views



Sky Bet Brand

- 100% online platform co-branded with the Sky News and Sky Sports media brands in the U.K.
- Targeted to capture the demographic who watch sports on mainstream media outlets
- Sky Sports is the dominant sports media channel in the U.K. and Ireland and maintains the exclusive broadcasting rights to the most popular contests including the English Premier League, Formula One, PGA Tour, Ryder Cup, Wimbledon, and many more
- Piggybacking off the popularity of Sky Sports, Sky Bet has quickly become the most popular online sports betting platform in the region with over 20% share
- Sky Bet has also been highly successful cross-selling customers into its Sky Vegas online real-money casino app
- In the U.S., Flutter's nascent FOX Bet brand plans to run a similar media-partnership with its Fox Sports partnership



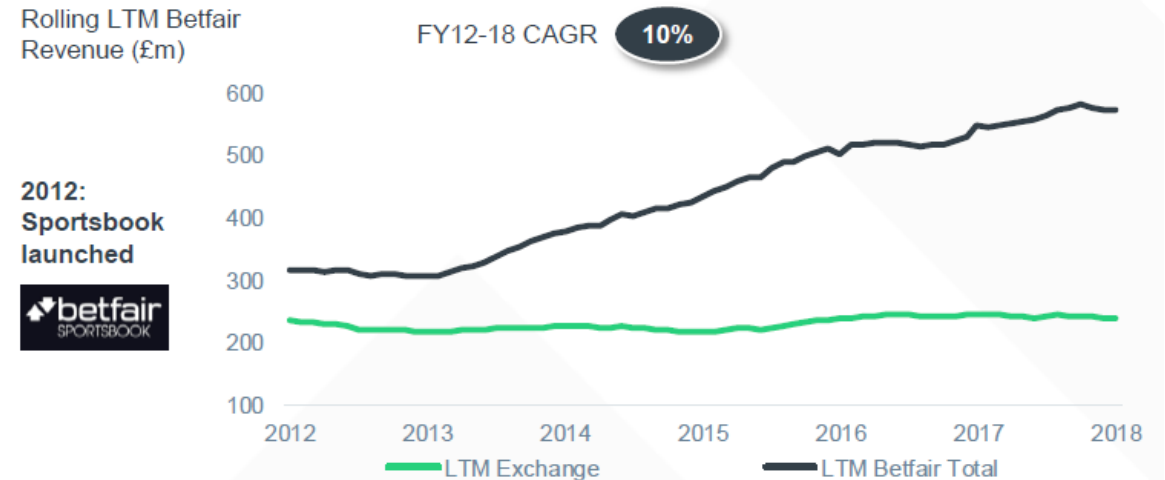
Playbook: Acquire Sportsbook Customers And Convert Them



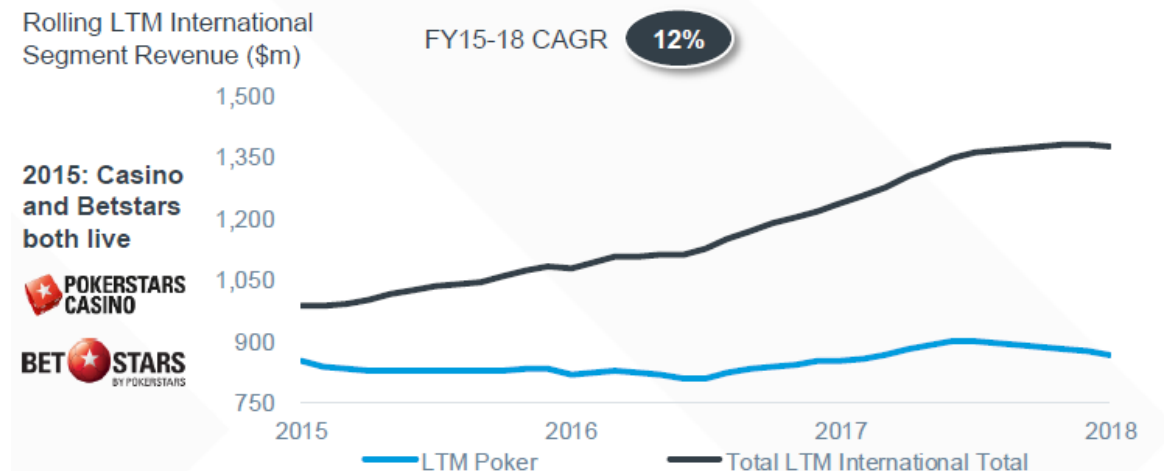
Flutter's Customer Acquisition Machine

- Flutter has the greatest scale sports betting, online casino, horse betting, and online poker
 - Best positioned to fully leverage scale advantages
- FanDuel has the leading U.S. sportsbook market share resulting from investments made over the past decade
 - Strong unaided brand awareness
 - Leveraging its DFS customer database, FanDuel already has customer emails, credit cards, and team interests
 - It will be difficult for new entrants to catch up. FanDuel and DraftKings have picked best team sponsorships and media deals, and years ahead in app development
- Higher customer LTV vs. peers due to ability to convert sportsbook customers into online casino or poker
 - Affords ability to more aggressively acquire customers and feeds into platform flywheel
 - Customers are acquired through media deals, brand advertising, free bet promotions, and more
- Running a multi-brand strategy in U.S. sports with FOX Bet & FanDuel similar to U.K. with Sky Bet & Paddy Power

- **Case Study:** Flutter successfully grew its U.K. sportsbook by cross-selling betfair exchange customers



- **Case Study:** The Stars Group successfully grew its online casino by cross-selling PokerStars customers



Flutter & DraftKings U.S. Results Highlight Competitive Advantages

Flutter's Q3 2020 Earnings Commentary

- “In the U.S., we're **building scale faster than we expected... We had more than 1.8 million customers active with us in the quarter.** We acquired over 450,000 new customers, a number that exceeded our internal forecast in both new and existing states, and we grew total net revenue by 82%, and we now estimate that our U.S. gross gaming revenue will be over \$1.1 billion in 2020, **making us the first online operator to break the \$1 billion mark for annual gross revenue.**”
- “It is interesting for us to as a contrast the benefits that we have with the scale, brand, customer franchise, and frankly, it's a platform advantages with FanDuel in comparison with FOX Bet. And I think **it does make us realize how important a number of those advantages that the FanDuel brand has, and particularly around the ability to acquire customers at sensible acquisition costs**”
- “We're getting **real confidence in our ability to retain them year after year.** We've seen that again this year in places like New Jersey, where we've been live for a couple of years now. And I think as we're getting comfortable on our ability to retain customers. And so the profile that we're seeing in terms of **the lifetime value of these customers continues to be higher than we have anticipated**”
- “Daily Fantasy is a great source of contribution for us in terms of covering our fixed costs, but most importantly, it allows us to get our brand out there and build our customer franchise. **We're using that to acquire customers in sports betting** and then in states where gaming is legal, **we can cross-sell some sports betting into gaming, and we see really good penetration levels occurring there**”

DraftKings' Q3 2020 Earnings Commentary

- “In the third quarter, we saw a significant increase in customer activity, as evidenced by our 64% year-over-year increase in MUPs for the quarter. On average, **more than 1 million monthly unique paying customers engage with DraftKings each month during Q3.**”
- “our **vertically integrated proprietary sports betting technology will create a sustainable and differentiated advantage** for DraftKings... We also expect to benefit from a long-term improvement in our gross margin percentage”
- “Overall, we are seeing great performance. **The efficiency, the CAC is actually better than what we expected, and we were able to spend deeper at a lower CAC.** “
- “We're not quite there yet, but we're getting close to **that 30-plus percent level of population having -- of the U.S. population having sports betting, which then will allow those national marketing efficiencies to start to kick in.** And I think that's part of why you're seeing us start to do some of these more national media deals.”
- “**We're seeing positive news on retention across the board.** Virtually, every state that we were present in last year, again, with caveat that it was a small number for sportsbook, we're seeing growth. New Jersey is way up year-over-year. Even just at the Masters, which yesterday started, New Jersey had a 181% increase in handle year-over-year for the Masters. So really tremendous growth in existing states, and retention has been strong.”

What Could Flutter Be Worth For Long-term Investors?



Reasonable Valuation Today

(GBP Millions)	<u>2020E</u>	<u>2021E</u>	<u>2022E</u>
Revenue	£4,549	£5,051	£5,644
Growth %	98.3%	11.0%	11.7%
EBITDA	£1,062	£1,185	£1,392
Margin %	23.3%	26.0%	30.6%
EBIT	£892	£926	£1,126
Margin %	19.6%	20.4%	24.8%
Market Cap	£21,460		
Enterprise Value	£24,709		
<u>Implied Multiples</u>			
EV / Revenue	5.4x	4.9x	4.4x
EV / EBITDA	23.3x	20.9x	17.7x
EV / EBIT	27.7x	26.7x	21.9x

- Flutter trades for 18x 2022E EBITDA (Wall St. consensus)
 - U.S. value not reflected because lack of EBITDA contribution
 - 58% stake in U.S. segment worth ~\$10bn standalone
 - Backing out U.S., Flutter trades for ~12x 2022E EBITDA**
- DraftKings not expected to be EBITDA positive in near-term
 - Valued at \$15bn TEV or ~20x 2021E Revenue

Illustrative 2030E Valuation

1) Flutter Ex-U.S. Could be worth ~£46.6 billion

- 7% 10-year revenue CAGR
- 30% FCF margin at maturity
- 20x FCF multiple

	<u>2030E</u>
Revenue (Ex-U.S.)	£7,769
FCF Margin	30%
Est. FCF	£2,331
FCF Multiple	20.0x
Enterprise Value (Ex. U.S.)	£46,612

2) Flutter U.S. could be worth ~£13.4 billion

- U.S. Online GGR TAM ~\$30bn
- 20% market share
- 25% FCF margin at semi-maturity
- 20x FCF multiple

	<u>2030E</u>
Online Sports GGR	\$20,000
Online Casino GGR	\$10,000
Total TAM	\$30,000
Flutter US Market Share	20%
Flutter US Revenue	\$6,000
Free Cash Flow Margin	25%
Free Cash Flow	\$1,500
FCF Multiple	20.0x
Flutter US TEV	\$30,000
58% Ownership Adj.	\$17,400
GBP Conversion	£13,385

3) Plus 10 years of cash flow ~£16 billion, less £3 billion of current net debt. Assumes no U.S. FCF contribution. Assumes no contribution from future M&A activity – a key driver of value creation in recent years

Estimated Flutter 2030E equity value of ~£72.9 billion, implies a ~15% IRR over 9 years or ~3.4x multiple on invested capital

- U.S. addressable market disappoints expectations
- Intense competition vs. DraftKings
 - To date, DraftKings has more aggressively spent money to acquire customers and seal partnerships
 - Flutter may have to increase investment to maintain market share
- European gambling regulation
 - U.K. regulators recently increased gaming taxes and reduced staking sizes; risk of more onerous laws to come
 - However, U.K. regulators have focused on parlors and online casino; Flutter's U.K. operation is focused on sports
- FanDuel minority stake acquisition price
 - Flutter owns ~58% of FanDuel today and will likely buyout minority owners at “market prices” in coming decade
 - Maintains call option to increase ownership from 58% to 95% by 2023

Evolution Gaming

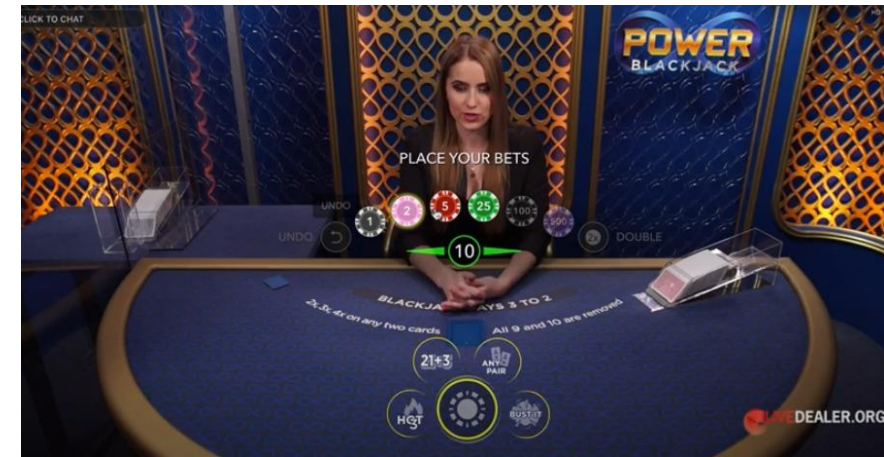
Best-in-class content provider

Evolution Gaming Overview



- Evolution Gaming (OM:EVO) (OTC:EVVTY) is a B2B online gambling content provider focused on Live Casino
- Live Casino is a sub-category of real-money casino gaming where real dealers interface with players
- Evolution has pioneered this model over the last decade and is the dominant operator in the category with a majority market share and contracts with most major online gambling platforms (Flutter, DraftKings, MGMBet, etc.)
- The company operates studios in Europe and North America to facilitate gameplay
- Evolution customizes tables with the branding of the casino customers they are serving. For example, on MGM's online platform, the table shows MGM's branding
- Traditional table games are offered (Blackjack, Poker, etc.) but Evolution has also created more immersive “game show style” formats with more creative elements
- The company has an innovative culture and launches several new games each year
- Recently announced \$2bn NetEnt acquisition expanding Evolution Gaming into online slot games

Table Game: Live Blackjack



Game Show Style: Deal Or No Deal



Why Live Casino Is A Good Business



- In Evolution's latest game, Live Craps, the company created a robotic arm to execute the fairest possible dice roll
- [Click here to see a demonstration on YouTube](#)
- Craps is a popular table game in Atlantic City and the Live Craps game is being released in conjunction with Evolution's new game studio in New Jersey

- Live Casino is the closest format to a real casino experience
 - Players have greater trust in real cards, dice, wheels
 - Players enjoy interfacing with human dealers
 - Players are more engaged, play longer, and repeat visit
- Live Casino is more difficult to operate than other formats
 - Setting up and operating a studio is capital intensive
 - Non-trivial operational hurdles include training staff, navigating compliance issues, streaming reliability
- Compelling unit economics
 - Thousands of players can bet on the same game or table
 - No need to acquire customers with promotions -- CAC is the largest expense line in an online casino's PnL
 - No need to give out free drinks to customers on a casino floor or pay rent on a land-based casino property
 - EVO collects 10% - 15% of gross gaming revenue (GGR)

Evolution Gaming's Moat



- Although Evolution's Live Casino format can be copied, the company has several operational and cultural advantages
- Industry reputation and track record
 - EVO is the go-to Live Casino provider (>50% share), no incentive for platforms to take a risk by choosing another provider
 - Spotless regulatory track record while competitors including Playtech have had issues
- Economies of scale
 - Studios operate on a 24/7 schedule serving customers all over the world, resulting in high studio utilization
 - EVO has the lowest cost of operation due to operating leverage from having the most studios and customers
- Culture of innovation and constant improvement
 - Very capable management team with a strong emphasis on product development
 - 12 new games released in 2020, including Crazy Time, its most successful new game launch to date
 - **Widening moat over time by building on significant first mover advantage with proprietary content IP**

EVO's Customers Include



A Classic “Compounder” Set-up In Early Innings



Evolution Gaming Historical & Projected Financials

(EUR Millions)	2015	2016	2017	2018	2019	2020E	2021E	2022E	2023E	2024E	2025E	2026E
Revenue	\$76	\$115	\$178	\$245	\$366	\$565	\$959	\$1,159	\$1,387	\$1,641	\$1,930	\$2,258
Growth %	57.3%	51.2%	54.5%	37.6%	49.0%	54.4%	69.8%	20.9%	19.7%	18.3%	17.7%	17.0%
EBIT	\$21	\$35	\$67	\$89	\$157	\$305	\$511	\$645	\$783	\$940	\$1,124	\$1,335
Margin %	27.6%	30.2%	37.5%	36.5%	43.1%	54.0%	53.3%	55.7%	56.5%	57.3%	58.2%	59.1%

Stock Price (EUR)	\$67.00
Shares Outstanding	215.0
Market Cap	\$14,405
Cash	\$316
Debt	\$238
Enterprise Value	\$14,327

Implied Valuation Multiples

EV / Revenue
EV / EBIT

2021E	2022E	2023E	2024E	2025E	2026E
14.9x	12.4x	10.3x	8.7x	7.4x	6.3x
28.0x	22.2x	18.3x	15.2x	12.7x	10.7x

Reported record revenue and operating margins for the first 9 months of 2020

Pro-forma for all-stock NetEnt acquisition

Valuation Notes:

- Projected revenue reflects a healthy dose of conservatism given significant remaining runway
- ~90% EBIT converts to Free Cash Flow
- EVO already generates healthy free cash flow despite significant growth investments
- Highly likely EVO trades above 20x cash flow for many years out, reflecting business quality

- Live Casino doesn't appeal to North American gamblers
 - Evolution's expansion in the U.S. is in early stages, there is a risk its products do not catch on
- Growth in more mature European geographies slow
 - Evolution generates significant business in European markets which have slower growth profiles. The company has benefitted from taking market share from other game format and may hit a growth asymptote
- Competition from another B2B content provider
 - Evolution faces competition from other B2B providers including Playtech which also offers Live Casino content. There is a risk of competition intensifying, resulting in Evolution losing share or reducing its pricing
- Large platform customers in-source Live Casino tables or negotiate better terms
 - Large online platforms such as Flutter, DraftKings, or Caesars, may seek to reduce their game content costs by in-sourcing some Live Casino tables or more aggressively negotiating contract terms

Questions?