

Scout Gaming (SCOUT SS): Executive Summary

Scout Gaming (ticker: SCOUT SS) is listed on the Nasdaq First North exchange in Sweden and has a \$105 million USD market cap (920 million SEK) with \$10 million in cash and no debt. Scout is the leading provider of daily fantasy sports (DFS) in Europe, offering B2B DFS games to iGaming operators and operating its own B2C DFS site called FanTeam. The European fantasy sports market is still in its infancy because, prior to Scout signing its first B2B customer in 2017, iGaming operators did not have a B2B DFS product available, putting Scout in the early innings of building out the DFS industry in Europe. The market opportunity is large, and Scout is pursuing the opportunity with little-to-no competition. Being “first” puts Scout at a significant long-term advantage because DFS games have network effects driven by the size of their contest prizes. Because Scout pools liquidity across all of its iGaming customers, as well as its own B2C site, they have the largest contest prizes for European sports (dominated by soccer), thereby attracting new players and retaining existing players. As Scout continues to grow its network of B2B operators, it will create larger and larger contest prizes, raising the barriers to entry for a potential competitor and widening its competitive moat.

The U.S. DFS industry is well-developed in comparison to Europe’s, generating \$650 million of net gaming revenue per year (gross wins minus promotions) with a population of 330 million people, which translates to approximately \$2 per person per year. With a population of 750 million, assuming the same \$2 per person per year seen in the U.S., the European DFS market has the potential to generate \$1.5 billion of net gaming revenue per year. Assuming Scout has a 60% market share (vs nearly 100% today) and earns a 28% take rate of operator net revenue, Scout has the potential to generate \$250 million of revenue in its DFS business.

In addition to growing the European DFS market, I also expect Scout to launch a B2B sportsbook product in the next 1-2 years. Conversations with both Scout’s current and prospective customers point to a distinct need in the market; however, the incumbent providers, Kambi (KAMBI SS) and SBTech (DKNG), are primarily investing in growth related to their American expansion. Scout already offers sports betting on its B2C site, FanTeam, and has built a reputation for product innovation, customer service, and continuous improvement, so I expect significant demand from European operators. I estimate that Scout’s sportsbook will generate \$88 million of annual revenue by 2027.

Between Scout’s DFS and B2B sportsbook businesses, Scout has the potential to generate \$330 million of revenue at a 45% EBITDA margin resulting in \$148 million of EBITDA in 2027. I estimate Scout will be worth 8x EV/sales and 18x EV/EBITDA. This results in a fair value of \$2.6 billion (23 billion SEK) or 1,025 SEK/share in 2027 (including 750 SEK/share for the DFS business and 275 SEK/share for the B2B sportsbook), which implies potential for a 23x return over the next 7 years or a 56% annualized return.

In this writeup, I will first discuss the iGaming industry at-large before delving into Scout’s Fantasy Sports products, attempting to size the European DFS market, and discussing the logic behind Scout launching a B2B sportsbook. I will then share my financial projections, comparable companies, and expected long-term valuation for Scout. Next, I will review catalysts and risks, Scout’s history, management and ownership, and customers. Finally, I will conclude with a case study on Evolution Gaming, drawing parallels between Evolution’s previously unmatched success and Scout’s potential to follow in similar footsteps.

The iGaming Industry

In 2019, approximately 85% of global gross gaming revenues came from brick-and-mortar casinos with the remaining 15% from iGaming. While total global GGR grows in-line with GDP, iGaming has been gaining about 1 point of market share per year for each of the last five years, driving double-digit growth in iGaming revenue. Similar to other industries (such as e-commerce), COVID-19 has accelerated the shift to online gaming, driving faster growth in iGaming businesses in Europe.

iGaming operators have websites that enable players to bet real money either in casino games (such as slots, casino, live casino, and poker) and/or on sports. iGaming companies specialize in acquiring and retaining customers through advertising and promotions/bonuses. Often, an iGaming website will aim to differentiate itself through targeting a specific slice of the market – for example, male sports bettors or female slots players. Other iGaming companies, such as Kindred's Unibet brand, aim to be a "department store", offering all gaming products to all people. However, iGaming companies typically do not specialize in creating the game content on their websites. Instead, they partner with a B2B gaming supplier for each game offered on their website. For example, a given iGaming customer may select NetEnt (NET SS) for slots, Evolution Gaming (EVO SS) for live casino, Kambi (KAMBI SS) for sports betting, and Scout Gaming (SCOUT SS) for DFS. Those suppliers will integrate into the back-end of the iGaming company's website and power each of those respective games. Typically, the iGaming company will charge a relatively low flat fee, called a "platform fee", plus a revenue share of the iGaming company's wins from that game. The revenue share often ranges from 5% to 40% of the iGaming company's revenue.

The iGaming and DFS industries look distinctly different when comparing the U.S. to Europe. iGaming is well developed in Europe with hundreds of operators ranging from publicly traded companies (such as Flutter, GVC, William Hill, Kindred, Betsson, LeoVegas, and Enlabs) to privately held companies (such as Bet365) to state-owned operators (such as Norsk Tipping). However, the DFS market in Europe is nascent because, until Scout signed their first customer B2B in 2017, operators did not have a B2B product available. The reverse is true in the U.S., where DFS is well-developed and iGaming is in its infancy. iGaming was illegal in the U.S. until recently, while DFS has been considered a safe harbor since its launch in 2010 because it is a skill-based game. This allowed DFS to develop first in the U.S., while the iGaming market is still reasonably undeveloped in comparison.

Scout's Fantasy Sports

As mentioned before, Scout is the leading provider of DFS in Europe, while also offering weekly and full season games, as well as betting games related to fantasy sports. To help frame the discussion, the definition of "daily fantasy sports" (according to Wikipedia) is as follows:

"Daily fantasy sports (DFS) are a subset of fantasy sport games. As with traditional fantasy sports games, players compete against others by building a team of professional athletes from a particular league or competition while remaining under a salary cap, and earn points based on the actual statistical performance of the players in real-world competitions. Daily fantasy sports are an accelerated variant of traditional fantasy sports that are conducted over short-term periods, such as a week or single day of competition, as opposed to those that are played across an entire season. Daily fantasy sports are typically structured in the form of paid competitions typically referred to as a "contest"; winners receive

a share of a pre-determined pot funded by their entry fees. A portion of entry fee payments go to the provider as rake revenue.” – Wikipedia https://en.wikipedia.org/wiki/Daily_fantasy_sports

To put this into context, here’s a hypothetical scenario: Scout has a DFS game for the English Premier League with a €5,000 contest prize that costs €5 to enter and has 1,250 entry slots available. The game would generate €6,250 in “player drop”. The total contest prize would be €5,000 with €2,500 going to 1st place, €1,500 to 2nd place, €750 to 3rd place, and €250 to 4th place. The “operator rake” from this game is €1,250 (€6,250 drop minus €5,000 in prizes). If this game were played on Scout’s FanTeam site, then the company would generate €1,250 of revenue. If the game were played on one of Scout’s B2B customer’s sites where Scout has a 28% take rate on the operator rake, Scout would generate €350 of revenue.

In addition to daily fantasy sports, Scout also offers weekly and full season games. During last season’s Premier League, Scout had a season-long €250,000 contest prize and a “Weekly Monster” contest prize of €50,000. On July 27th, 2020, Scout announced a €1 million contest prize for the season-long fantasy sports Premier League for 2020/2021 (4x last season’s prize). The game costs €25 to enter and has 50,000 slots available, so it should generate €250,000 of operator rake. The season-long game has the advantage of bringing players back to the site to modify their teams each week, which increases the chances that, while visiting the site, they either (1) choose to enter another one of Scout’s daily or weekly tournaments, and/or (2) play some slots or place some sports bets, helping Scout’s B2B customers that have casino and betting products. In short, DFS provides a new tool for European operators to drive player acquisitions and improve player retention.

Scout also has larger contest prizes by pooling liquidity across FanTeam and all B2B operators. This creates a network effect as the DFS games with the most players and largest contest prizes are the most attractive to new players. Scout is already the leading DFS provider for European sports, and, as Scout continues to grow, its contest prizes will increase in size, subsequently attracting more new players.

My research indicates that Scout generates roughly 40% of revenue from the Premier League, 20% from other soccer leagues, and 40% from other sports, including American football, basketball, hockey, baseball, tennis, MMA, motorsports, and esports. Worth noting is the fact that Scout also has an in-house stats and analytics team of 30 people based in Ukraine. This team both sets player “salaries” based on their expected performance and is also capable of adding new sports, providing Scout with a competitive advantage. For example, earlier this year, when all sports leagues were closed due to COVID-19, Scout added DFS for esports to offset the lost revenue. In addition, Scout can create DFS games for local sports, such as Greek basketball and Norwegian hockey leagues, thereby allowing operators to provide local games and content for their players. In-depth interviews I have conducted indicate that leading sports operators tend to place a high value on localized content, making this capability essential for Scout’s success in signing large European B2B clients.

Scout has a reputation for being a customer-focused company with high-quality products and service, as indicated by having won Fantasy Sports Supplier at the EGR B2B awards every year since launching the product. Scout is also leading the DFS industry in product innovation, which includes both providing DFS games for new sports (e.g., esports, local sports) as well as creating new game and bet types. Several of the innovative products surround betting on individual player performance, including (1) Player Performance Odds, where you bet whether a given player will earn over or under a given level of

fantasy points in a game, (2) Matchup Duels, where you bet on who will earn more fantasy points, and (3) Player Lottery, where you enter the lottery and are given a player in which your payout depends on how many fantasy points the player earns. Product development is expected to occur at a rapid pace going forward. A part of Scout Gaming's strategy is to roll out new products on its entire client base.

Sizing the European DFS Market

The DFS market in the U.S. generates roughly \$650 million of net gaming revenue per year with DraftKings at nearly \$250 million, FanDuel at nearly \$250 million, and other operators (including DRAFT, Fantasy Aces, Yahoo! Sports, and others) at nearly \$150 million. DraftKings and FanDuel in particular have been able to rapidly grow their B2C DFS businesses because, until the Supreme Court struck down PASPA in 2018, online casino and sports betting were illegal in the U.S. Each company spent hundreds of millions of venture capital money acquiring DFS players between 2012 and 2017 with a relatively low cost per player acquisition (CPA) as they were not competing against iGaming operators that offered other verticals. Therefore, the economics for B2C DFS worked in their favor.

While the European iGaming industry is well-established, the DFS industry is still in its infancy because, as discussed previously, there was no B2B DFS product available for iGaming operators prior to Scout coming on the scene. iGaming competitors offer casino and betting, both of which monetize at a higher rate than DFS, meaning these operators can afford to pay a higher CPA. This makes it difficult for an operator to exclusively pursue a DFS B2C strategy since they are unable to acquire many players at an economics that make sense. The advantage of the European market compared to the U.S. market is that there are hundreds of operators that have already acquired a large number of players. Scout is growing the European B2B market by showing these existing operators the value that DFS brings to their business in terms of (1) differentiating the player experience in a crowded market, (2) driving player acquisition, and (3) improving player retention.

The U.S. has a population of 330 million people, and the industry generates approximately \$2 of net gaming revenue per person per year. Applying this same \$2 per person per year rule to Europe's population of 750 million means that Europe has the potential to generate \$1.5 billion of net gaming revenue per year from DFS. If we assume that Scout has a 60% market share (versus nearly 100% today) and earns a 28% take rate of operator net revenue (a modest increase on their current take rate), Scout has the potential to generate \$250 million of revenue in its fantasy sports business.

We can also evaluate the market size through a different lens by looking at the number of players in Europe. The free-to-play, season-long official Fantasy Premier League had 7.5 million players in the 2019/2020 season, indicating that there is strong demand for fantasy sports. Europe has the potential for 5 million active DFS players with the largest markets including Germany, the UK, Spain, and the Nordics, each coming in at roughly 500,000 active DFS players. These players may monetize at €200/year, indicating potential for €1 billion of DFS net gaming revenue.



20 TEAMS COMPOSING THE PREMIER LEAGUE

It is important to note that, while Scout has no competition as a B2B DFS supplier, DraftKings and FanDuel do operate B2C sites in Europe that compete with FanTeam. My research shows that FanTeam and DraftKings lead the B2C market in Europe with PaddyPower (powered by FanDuel and owned by Flutter) coming in a distant third. Given (1) Scout's ability to pool liquidity across FanTeam and its B2B customers, (2) the high cost per player acquisition in Europe, and (3) the fact that European iGaming operators have large existing player bases, I expect that Europe's DFS industry will be dominated by Scout, currently the only B2B supplier in Europe.

Scout as a B2B Sportsbook Operator

I expect Scout to enter the B2B sportsbook business in the next 1-2 years. Scout not only has a reputation for strong products, innovation, and customer service, but they also have experience offering sports betting products on their B2C site, FanTeam (albeit, to a somewhat limited extent). While Scout has no competition on the B2B DFS aspect of their business, there are several competitors that offer B2B sportsbooks. However, my conversations with iGaming operators indicate a need for a customer-focused, innovative B2B sportsbook provider.

The European B2B sportsbook market is fragmented, consisting of a number of suppliers, including (1) Kambi, which provides a full turnkey solution, (2) SBTech, which provides a digital solution, (3) Optima, a legacy provider recently acquired by Sportradar, (4) Scientific Games Digital, another legacy provider, and (5) the iGaming operator building the sportsbook themselves.

Kambi was spun out of Kindred in 2014 with the goal of providing the sportsbook to other iGaming operators. Kambi's technology roadmap is focused on building product for Kindred, who remains Kambi's largest customer, and U.S. expansion, as exhibited by their recent launch with Barstool Sports and PENN. SBTech, acquired by DraftKings earlier this year, is primarily focused on converting DraftKings from Kambi to SBTech by September 30th, 2021, which has already led to the loss of multiple European B2B customers. While Optima and Scientific Games Digital have legacy products that have allowed them to maintain some large B2B customers over the years, their products are expensive for operators and the technology is old. The final option is for the operator to have an in-house sportsbook. This is a decent option for larger operators who not only want flexibility to customize the product but also have the bandwidth to have the necessary software teams and traders to run the book. However, for most iGaming operators, a B2B sportsbook operator offers a higher quality product at a lower price. I expect Scout's B2B sportsbook to be received well by its European customers given the current void of innovative, customer-focused B2B sportsbook providers focused on Europe.

Sizing the market. In their December 2019 slide deck, DraftKings reported the Global Sportsbook TAM at \$70+ billion with the U.S. \$20+ billion of that. I estimate that Europe's sportsbook business is \$30 billion. A B2B sportsbook operator may have an average 8% take rate, implying Europe's B2B sportsbook business is at \$2.4 billion, or €2 billion. However, several of the largest operators have an in-house sportsbook, meaning the B2B sportsbook market is likely smaller than that. For context, Kambi is expected to generate €130 million of revenue in 2021 and SBTech is expected to generate \$114 million of revenue in 2021, both entirely from their B2B sportsbook business. Given Scout's reputation for product innovation and customer service, I estimate that Scout's sportsbook will generate \$88 million (€74 million, 770 million SEK) of annual revenue by 2027.

Financial Model and Projections

Scout is a small, rapidly growing company that is building the DFS market in Europe. I expect the company to grow revenues at a 79% CAGR over the next 7 years to reach 2.9 billion SEK in revenue, 1.3 billion SEK in EBITDA, and 0.9 billion SEK of free cash flow. I expect the business to reach EBITDA profitability in 2021 driven by growth in existing customers, launching with Norsk Tipping (a recent new customer win), and launching with other new customers. Scout's software is highly scalable with strong incremental margins. Thus, I expect margins to expand each year from 2020 to 2027, reaching 45% EBITDA margin in 2027.

Scout has three revenue sources through 2027: (1) B2B DFS revenue, (2) FanTeam B2C DFS revenue, and (3) a yet-to-be-launched B2B sportsbook.

B2B DFS Revenue (58% of 2027 revenue). Because Scout is still a small company, one large B2B customer win can significantly move the needle for growth, so I break B2B DFS revenue into two buckets – large customers and all other customers. Scout has won three large B2B customers so far – Stoiximan, Norsk Tipping, and Parimatch. Stoiximan is the largest operator in Greece and went live with Scout in 2019 (which contributed to Scout's strong y/y revenue growth in 3Q19 and 4Q19), Norsk Tipping is Norway's state-owned monopoly that is expected to launch with Scout in late 2020, and Parimatch is the leading operator in Ukraine and has a large presence in the Commonwealth of Independent States (which includes Russia). In addition to these large customers, Scout has another 8 customers that are live and has signed contracts with several more which are not yet live with real-money DFS and, thus, not generating revenues. I expect Scout's growth over the next 7 years to come from a combination of winning new customers and expanding within existing customers. Fortunately, Scout's strong products and customer service have translated to no material customer losses in the company's history. In addition, most of the company's B2B DFS revenue is revenue share, which is effectively recurring revenue as long as end customers are playing Scout's games. Because of the high customer retention and recurring revenue, combined with a history of expanding within existing customers, I expect Scout's revenue to steadily build over the next several years. Specifically, starting in 2021, I expect Scout to win one large customer per year and to launch with four small to mid-sized customers, ramping to ten new small to mid-sized customers by 2026-2027. I expect revenue expansion within both small and large customers as Scout's contest prizes grow in size and the company launches new products, driving a 79% CAGR in B2B DFS revenue.

FanTeam B2C DFS Revenue (16% of 2027 revenue). FanTeam runs on Scout's B2B platform. It started as a way to test games in the market but has grown faster than management expected with very limited marketing spend, making FanTeam one of Scout's growth engines. Management is beginning to invest marketing dollars to acquire customers, which I expect will lead to sustained growth, especially in markets where Scout does not have B2B operators as customers. I expect FanTeam's revenue to increase at a 56% CAGR over the next 7 years.

B2B Sportsbook (26% of 2027 revenue). I expect Scout to launch a B2B sportsbook product in the next 1-2 years. There is a significant need in the market for an innovative, customer-focused B2B sportsbook product, especially in Europe. I estimate the B2B sportsbook market in Europe is around 20 billion SEK (€2 billion), growing in the high single digits annually, to 35 billion SEK in 2027. I expect Scout to capture 2.2% of that 35 billion SEK market by 2027, driving 770 million SEK of revenue.

Scout's primary costs are personnel and marketing (the latter of which shows up in the "Other external expenses" line item). I expect personnel costs to grow at a 36% CAGR through 2027. I expect "Other external expenses" to grow at a 65% as marketing costs typically grow at nearly the same pace as revenue growth. Marketing costs include the cost of guaranteed contest prizes, branding (including the recently announced Fulham FC sponsorship by FanTeam), and direct player acquisition costs for FanTeam.

Scout's business model is highly scalable given that, once a customer is live, they continue to generate revenue. Scout has a modern technology stack which integrates with NetEnt and SciGames back end systems. I expect Scout will reach EBITDA-profitability in 2021 and IFRS-profitability in 2022. I expect Scout's margins and profitability will grow each year due to its scalable business model, reaching a 45% EBITDA margin in 2027. At scale, I expect Scout to convert 67% of EBITDA into free cash flow. I expect Scout to be a taxpayer starting in 2023. I expect capex to continue to grow, though declining as a percentage of sales.

Scout has a simple capital structure with 20.5 million common shares and 0.3 million management warrants, 91 million SEK in cash, and no debt, preferred equity, or other complex securities. Scout's market cap is 920 million SEK (at a 45 SEK/share price) and has a 829 million SEK enterprise value. Scout is well capitalized following its highly oversubscribed capital raise on July 17th, 2020, which raised 75 million SEK at 25 SEK/share. I expect cash to trough at 80 million SEK in 2021, at which point the business will inflect to FCF positive and begin building cash each year through 2027.

Scout Gaming Long-Term Model (All Numbers in SEK)

	2017	2018	2019	2020	2021	2022	2023	2024	2025	2026	2027
Large B2B customers											
Stoiximan (Greece)				12,000	15,000	17,250	19,838	22,813	26,235	30,170	34,696
y/y growth					25%	15%	15%	15%	15%	15%	15%
Norsk Tipping (Norway)				5,000	25,000	35,000	40,250	46,288	53,231	61,215	70,398
y/y growth					400%	40%	15%	15%	15%	15%	15%
Parimatch (Ukraine, Russia)				500	6,000	25,000	28,750	33,063	38,022	43,725	50,284
y/y growth					1100%	317%	15%	15%	15%	15%	15%
Large customer #4					500	40,000	46,000	52,900	60,835	69,960	80,454
y/y growth						7900%	15%	15%	15%	15%	15%
Large customer #5						20,000	45,000	51,750	59,513	68,439	78,705
y/y growth							125%	15%	15%	15%	15%
Large customer #6							25,000	50,000	57,500	66,125	76,044
y/y growth								15%	15%	15%	15%
Large customer #7								30,000	55,000	63,250	72,738
y/y growth									83%	15%	15%
Large customer #8									35,000	60,000	69,000
y/y growth										71%	15%
Large customer #9										40,000	65,000
y/y growth											63%
Large customer #10											45,000
y/y growth											
Large B2B customers				17,500	46,500	137,250	204,838	286,813	385,335	502,885	642,318
y/y growth					166%	195%	49%	40%	34%	31%	28%
All other B2B customers											
Number of other revenue generating customers				8	12	18	24	32	40	50	60
Net adds					4	6	6	8	8	10	10
Average revenue / customer				1,300	1,950	3,218	5,148	7,722	10,811	14,054	16,865
y/y growth					50%	65%	60%	50%	40%	30%	20%
All other B2B revenue				10,400	23,400	57,915	123,552	247,104	432,432	702,702	1,011,891
y/y growth					125%	148%	113%	100%	75%	63%	44%
Fanteam (fully-owned DFS B2C operator)				21,000	32,550	55,335	96,836	159,780	247,659	359,105	466,837
y/y growth				200%	55%	70%	75%	65%	55%	45%	30%
B2B Sportsbook provider					500	15,000	45,000	112,500	225,000	427,500	769,500
y/y growth						2900%	200%	150%	100%	90%	80%
Total Revenue	5,772	14,580	25,691	48,900	102,950	265,500	470,226	806,197	1,290,426	1,992,192	2,890,546
y/y growth		153%	76%	90%	111%	158%	77%	71%	60%	54%	45%
Personnel expenses	9,358	31,541	39,790	34,924	41,908	75,435	116,924	157,847	197,309	246,636	308,295
y/y growth		237%	26%	-12%	20%	80%	55%	35%	25%	25%	25%
% of sales	162%	216%	155%	71%	41%	28%	25%	20%	15%	12%	11%
Other external expenses	18,800	19,975	28,654	38,883	58,324	137,061	246,710	407,072	630,962	914,895	1,280,852
y/y growth		6%	43%	36%	50%	135%	80%	65%	55%	45%	40%
% of sales	326%	137%	112%	80%	57%	52%	52%	50%	49%	46%	44%
Operating expenses (ex-D&A)	28,158	51,516	68,444	73,806	100,232	212,496	363,634	564,919	828,271	1,161,531	1,589,148
y/y growth		83%	33%	8%	36%	112%	71%	55%	47%	40%	37%
% of sales	488%	353%	266%	151%	97%	80%	77%	70%	64%	58%	55%
EBITDA	(22,386)	(36,936)	(42,753)	(24,906)	2,718	53,004	106,592	241,278	462,155	830,662	1,301,398
EBITDA margin	-388%	-253%	-166%	-51%	3%	20%	23%	30%	36%	42%	45%
D&A	3,060	8,220	10,058	6,423	10,277	13,874	18,730	24,349	31,654	39,567	49,459
y/y growth		169%	22%	-36%	60%	35%	35%	30%	30%	25%	25%
% of sales	53%	56%	39%	13%	10%	5%	4%	3%	2%	2%	2%
Operating income	(25,446)	(45,156)	(52,811)	(31,329)	(7,559)	39,130	87,861	216,928	430,501	791,094	1,251,939
Operating margin	-441%	-310%	-206%	-64%	-7%	15%	19%	27%	33%	40%	43%
Financial items	2,433	(775)	580	(2,668)	-	-	-	-	-	-	-
Pre-tax income	(23,013)	(45,931)	(52,231)	(33,997)	(7,559)	39,130	87,861	216,928	430,501	791,094	1,251,939
Pre-tax margin	-399%	-315%	-203%	-70%	-7%	15%	19%	27%	33%	40%	43%
Tax	(175)	89	67	83	-	-	(8,786)	(65,079)	(129,150)	(237,328)	(375,582)
Tax rate	0.8%	-0.2%	-0.1%	-0.2%	0.0%	0.0%	10.0%	30.0%	30.0%	30.0%	30.0%
Net income	(23,188)	(45,842)	(52,164)	(33,914)	(7,559)	39,130	79,075	151,850	301,351	553,766	876,357
Net margin	-402%	-314%	-203%	-69%	-7%	15%	17%	19%	23%	28%	30%
EPS (SEK/share)	-3.24	-3.57	-3.67	-1.77	-0.35	1.71	3.35	6.30	12.26	22.08	34.26
y/y growth		10%	3%	-52%	n/m	-588%	96%	88%	95%	80%	55%
Shares outstanding, average	7,151	12,833	14,200	19,153	21,643	22,942	23,630	24,103	24,585	25,076	25,578
y/y growth		79%	11%	35%	13%	6%	3%	2%	2%	2%	2%
EBITDA	(22,386)	(36,936)	(42,753)	(24,906)	2,718	53,004	106,592	241,278	462,155	830,662	1,301,398
Less: capex	(2,920)	(4,771)	(8,233)	(9,532)	(12,868)	(17,372)	(23,452)	(30,488)	(39,634)	(49,543)	(61,929)
y/y growth		63%	73%	16%	35%	35%	35%	30%	30%	25%	25%
% of sales	50.6%	32.7%	32.0%	19.5%	12.5%	6.5%	5.0%	3.8%	3.1%	2.5%	2.1%
Less: interest expense	2,433	(775)	580	(2,668)	-	-	-	-	-	-	-
Less: taxes	(175)	89	67	83	-	-	(8,786)	(65,079)	(129,150)	(237,328)	(375,582)
FCF	(23,048)	(42,393)	(50,339)	(37,023)	(10,150)	35,632	74,353	145,711	293,370	543,790	863,888
Cash and cash equivalents	49,853	46,554	21,473	92,006	81,855	117,487	191,840	337,552	630,922	1,174,712	2,038,600
All numbers are in Scout's reporting currency, the Swedish Krone (SEK)											

Valuation Comps

Flutter and DraftKings are the best DFS comps, while Evolution, NetEnt, Kambi, GAN, and Betmakers are the best B2B service provider comps. These comparable businesses trade at 8.8x forward EV/sales, 21.7x forward EV/EBITDA, 36.3x forward P/E, and 46.7x forward EV/FCF.

Scout Comps

	FLTR LN	DKNG	EVO SS	NETB SS	KAMBI SS	GAN	BET AU	Median
Name	Flutter	DraftKings	Evolution	NetEnt	Kambi	Gan	Betmakers	
Price (\$USD)	160	48.58	66.56	8.53	30.24	18.09	0.30	
Shares	155	356	181	247	31	29	600	
Market Cap (\$USD)	24,735	17,273	12,079	2,105	931	524	180	2,105
Cash (\$USD)	143	221	205	28	51	10	22	
Preferred (\$USD)	272	262	-	-	-	-	-	
Debt (\$USD)	718	75	28	262	17	1	0	
EV (\$USD)	25,572	15,897	11,858	2,322	894	519	158	2,322

Quality:

Sales growth	17.0%	47.0%	41.5%	11.0%	12.0%	29.0%	236.8%	29.0%
EBITDA margin	19.1%	-52.0%	56.2%	49.0%	31.4%	24.1%	2.4%	24.1%
Capex % sales	2.1%	5.2%	5.2%	1.1%	2.7%	0.6%	2.1%	2.1%
(EBITDA - capex) / sales	17.0%	-57.2%	51.0%	48.0%	28.7%	23.5%	0.3%	23.5%
FCF margin	17.3%	-31.0%	48.4%	35.0%	24.1%	20.3%	-8.0%	20.3%
ROIC	3.2%	n/m	62.9%	27.8%	16.1%	16.1%	-5.8%	16.1%

Valuation:

EV/sales	4.3x	25.0x	14.6x	8.8x	6.5x	11.5x	7.2x	8.8x
EV/EBITDA	18.3x	n/m	25.0x	16.5x	16.5x	48.8x	26.8x	21.7x
P/E	30.0x	n/m	30.6x	25.3x	42.0x	103.4x	45.6x	36.3x
EV/FCF	32.9x	n/m	47.4x	26.2x	83.0x	85.9x	46.0x	46.7x

Valuation based on forward 12 months metrics

Long-Term Valuation

I model (1) Scout growing revenue at a 79% CAGR over the next seven years to reach 2.9 billion SEK in 2027; (2) Scout's EBITDA margin reaching 45% at scale, driving EBITDA of 1.3 billion SEK in 2027; and (3) free cash flow margin of 30%, driving 0.9 billion SEK in 2027.

I value Scout at 8x EV/sales, 18x EV/EBITDA, 30x P/E, and 30x EV/FCF based on comparable companies (a 20% discount to comp valuations). Scout has better growth, at-scale margins, and ROIC than the comps, so you could certainly make the case that the business should trade for a premium. However, given (a) Scout's current small size, and (b) that most of the returns come from revenue growth as opposed to multiple expansion, I am comfortable valuing at a discount.

I estimate that Scout will be worth 1,025 SEK/share in 2027 with the DFS business at 750 SEK/share and the B2B sportsbook business at 275 SEK/share. Comparing this to the current share price of 45 SEK/share, results in a 56% annualized return over the next 7 years and 23x return over the entire period.

It is also worth noting that more than one company may be interested in acquiring Scout in a few years. Evolution Gaming currently has live casino games and recently acquired NetEnt for B2B casino games, so Scout could complete Evolution's product offering by bringing a B2B DFS and a B2B sportsbook to the table. DraftKings may also be interested in expanding their DFS business in Europe and entering the B2B DFS business. It is common for a strategic acquisition to be 10-15% of the firm's market cap, which would value Scout at 500 SEK/share to 1,050 SEK/share based on Evolution's \$12 billion market cap and DraftKings's \$17 billion market cap. However, an acquisition is unlikely to happen in the next three years because Scout needs to prove out its B2B DFS model before an acquirer will pay a fair price for the business.

Scout Gaming Long-Term Valuation											
	2017	2018	2019	2020	2021	2022	2023	2024	2025	2026	2027
Revenue	5,772	14,580	25,691	48,900	102,950	265,500	470,226	806,197	1,290,426	1,992,192	2,890,546
y/y growth		153%	76%	90%	111%	158%	77%	71%	60%	54%	45%
EBITDA	(22,386)	(36,936)	(42,753)	(24,906)	2,718	53,004	106,592	241,278	462,155	830,662	1,301,398
EBITDA margin	-388%	-253%	-166%	-51%	3%	20%	23%	30%	36%	42%	45%
y/y growth						1850%	101%	126%	92%	80%	57%
EPS	-3.24	-3.57	-3.67	-1.77	-0.35	1.71	3.35	6.30	12.26	22.08	34.26
y/y growth							96%	88%	95%	80%	55%
FCF	(23,048)	(42,393)	(50,339)	(37,023)	(10,150)	35,632	74,353	145,711	293,370	543,790	863,888
FCF margin	-399%	-291%	-196%	-76%	-10%	13%	16%	18%	23%	27%	30%
y/y growth							109%	96%	101%	85%	59%
Shares outstanding, average	7,151	12,833	14,200	19,153	21,643	22,942	23,630	24,103	24,585	25,076	25,578
Cash and cash equivalents	49,853	46,554	21,473	92,006	81,855	117,487	191,840	337,552	630,922	1,174,712	2,038,600
Value per share (in SEK) at given multiples											
8x EV / sales								282	446	682	984
18x EV/EBITDA								194	364	643	996
30x P/E								189	368	662	1,028
30x EV/FCF								195	384	697	1,093
Average (value per share in SEK)								215	390	671	1,025
y/y growth									81%	72%	53%
Current Price											45
MOIC											23x
IRR											56%

Catalysts and Risks

Catalysts

- Deliver on long-term financial model through launching with signed customers (e.g. Norsk Tipping), winning new customers, and expanding with existing customers
- Reach profitability in 2021, thereby substantially de-risking the business
- Enter B2B sports book business in the next 1-2 years
- Add sell-side research coverage which I also expect to happen in the next 1-2 years
- Move listing or create second listing in the U.S. in 2021 or 2022

Risks

- Smaller DFS market in Europe than predicted
- Loss of a major customer, inability to launch with large signed customers, or failure to win new customers in the future

- New competition enters the space and develops larger liquidity pools, putting Scout at a disadvantage
- It may take longer than expected to sign and launch leading operators

Scout's History

Scout was founded by Andreas Sundal (Chief Product Officer) and Bjorn Fjellby. FanTeam launched in 2015, and Scout signed its first network partner (B2B customer) in 2017. Scout was funded by friends and family in the beginning, and the founders decided to IPO relatively early to raise capital and provide liquidity to early investors.

Scout IPOed in November 2017, raising 60 million SEK at 23 SEK/share. Shares closed the first day of trading at 35 SEK/share and traded between 35 and 50 SEK/share until November 2018. In late 2018 to early 2020, the broader European iGaming industry suffered from new regulation in Sweden (an early core market where Kindred, LeoVegas, Betsson, Kambi, NetEnt, and Evolution Gaming launched), causing the growth at large operators to decrease. At the same time, an overall increased focus on Environmental, Social, and Governance (ESG) put pressure on the sector as local Swedish institutional investors such as Handelsbanken Fonder and Nordea Fonder were forced sellers.

As a small company with minimal revenue at the time, Scout's stock declined with the sector from November 2018 to November 2019. In addition, the lock-up period for early Scout investors expired in late 2018, putting additional selling pressure on Scout's shares.

Since late 2019, Scout has accelerated its growth, narrowed its cash burn, and signed several significant customers who will take the business to the profitability. In addition, the iGaming market has returned to growth as COVID-19 has driven an accelerated shift from brick-and-mortar casinos to iGaming. Scout's B2B customers are seeing increasing revenues and profits and are looking for ways to invest in and grow their businesses. The prospective customers are more open to conversations about new products and investing in their platform in this environment.

SCOUT CAPITAL RAISE HISTORY

Date	Price (SEK/sh)	Shares	Amount (SEK)
11/17/17	23.00	2.61	60.0
12/01/18	42.22	1.00	42.2
06/28/19	20.77	1.30	27.0
01/22/20	12.00	3.17	38.0
07/17/20	25.00	3.00	75.0

Management and Shareholder Ownership

The management team and board are exceptionally high quality, especially for a small company. Members of management have strong backgrounds in media and iGaming, hailing from companies including Bonnier AB (a large privately held Swedish media group), NYX Gaming Group (acquired by SciGames), and NetEnt AB (a large B2B casino provider acquired by Evolution Gaming). The management and board collectively own 23.4% of the outstanding shares.

SCOUT GAMING MANAGEMENT TEAM AND BOARD OF DIRECTORS OWNERSHIP					
Name	Title	Shares	Warrants	Combined	% of Out
Management Team					
Andreas Ternstrom	CEO	402,340	40,000	442,340	2.1
Billy Degerfeldt	CFO	63,798	-	63,798	0.3
Andreas Sundal	CPO / Co-Founder	803,464	20,000	823,464	4.0
Joakim Renman	CCO	18,557	-	18,557	0.1
Terje Bolstad	COO	9,025	-	9,025	0.0
Board of Directors					
Anders Enochsson	Chairman	1,432,200	-	1,432,200	6.9
Atle Sundal	Board Member	1,571,205	-	1,571,205	7.6
Jorgen Ragnarsson	Board Member	44,897	-	44,897	0.2
Carla Maree Vella	Board Member	-	-	-	0.0
Hans Isoz	Board Member	-	-	-	0.0
Rolf Blom	Former Chairman	451,462	-	451,462	2.2
Total Management and Board		4,796,948	60,000	4,856,948	23.4
Total Diluted Shares Outstanding		20,800,000			

Total diluted shares outstanding includes 20.5 million common shares and 0.3 million warrants as of September 15th, 2020.

Scout's shareholder base, which includes the likes of long-term sector specialists Knutsson AB Holding (Knutsson family) and Provobis/Novobis (Lundstrom family), also speaks to the quality of the business. Scout's Chairman Anders Enochsson is currently operating as CFO in Knutsson Holdings and has no other board representation in listed companies, which shows the Knutssons' commitment to and long-term interest in Scout. The Knutsson and Lundstrom families have a long heritage in the gaming sector dating back to the 1960s, which includes an exceptional track record with companies such as NetEnt (recently acquired by Evolution Gaming at a 17.5 billion SEK valuation) and Cherry (acquired by Bridgepoint and insiders at a 9.2 billion valuation in December 2018). In addition, industry veteran Matt Davey is a shareholder in Scout. Davey previously served as CEO of NYX which was sold to SciGames for \$667 million in 2018, and he currently serves as a director in Bet Makers (BET AU). Matt Davey holds shares through Tekkorp LLC.

Scout has also attracted a high-quality investor base. Swedish investors include Swedbank Robur Micro Cap fund; Lars Wingefors, founder and largest shareholder of 40 billion SEK-listed computer games company Embracer Group (EMBRAC SS); and Enlabs AB (NLAB SS), the leading iGaming operator in the Baltics and also a Scout customer and shareholder. German institutional investors include leading names

including Lloyd Fonds AG, Berenberg, Lupus Alpha, and Deka. U.S. investors include Topline Capital, Tekkorp LLC, and Plural Investing LLC.

Customers

Scout possesses a unique product not offered by other B2B service providers in Europe. The company is aiming to sign the lead operator in each major European country to build out the DFS industry in Europe. Here is a list of current B2B customers:

- Stoiximan, the leading operator in Greece
- PAF, a large operator in Finland/Sweden
- Norsk Tipping, state-owned monopoly in Norway
- Optibet, leading operator in the Baltics
- Parimatch, leading Russian and Ukrainian operator
- Betway Africa
- Bet.pt, leading operator in Portugal (signed in 4Q19)
- Vivagol, operator in South America (signed in 4Q19)
- Hero Gaming, focused in Scandinavian markets
- Bethard, operator in Scandinavia and the UK
- Betsson, operator in Sweden signed in 2017



And these are some prospective B2B customers:

- ATG and Svenska Spel, two of the largest operators in Sweden. These operators, with whom conversations are already taking place, could cause a several hundred percent increase in revenue alone.
- Danske Spil, the national lottery in Denmark
- Bet365, 888, GVC, and William Hill, all of which are large operators in the UK
- bwin, a large German operator
- Veikkaus, the state-owned Finnish operator with a monopoly as the only licensed operator in Finland. However, important to note is that Finland is a grey market and generally does not block non-regulated sites. While Finland is discussing increasing industry regulations in the coming years, this means Scout is not expected to launch in Finland before 2022.
- Hundreds of smaller operators. I expect the integrations with NetEnt and SciGames to help Scout win new customers and speed up the implementation. NetEnt Connect was signed in 4Q19, which enables access to NetEnt's entire client base of over 200 operators globally.

Evolution Gaming (EVO SS) Case Study

Evolution Gaming may be the best performing stock over the last five years that most people haven't heard of. Evolution IPOed March 20th, 2015 at a split-adjusted price of 16 SEK/share (\$300 million USD market cap at the time) and now sells for 585 SEK/share (\$12 billion market cap) – a 36x return over 5.5 years, or a 90% total shareholder return (TSR). The FAAMNG stocks (FB, AMZN, AAPL, MSFT, NFLX, GOOG), which have led the market for the past five years, have generated a 34% TSR over the same period. AMD and NVDA's are the only U.S. stocks that have come close to Evolution's returns with 85% and 76% TSRs, respectively.

Evolution Gaming is the leading B2B provider of live table game products for the iGaming industry. Dealers are filmed at the company's studios in real-time, dealing for the live table games, and the video feed is streamed to Evolution's iGaming customers. Instead of a mere eight players playing, thousands of players can play at one table. Evolution takes a revenue share of operator win – the same revenue model as Scout.

Evolution's returns show the power of a high-quality B2B iGaming provider with a market-leading position, strong execution, and a rapidly growing product category. I believe Scout is executing in B2B DFS what Evolution did in live table games. Here are my takeaways from studying Evolution's track record:

1. EVO started small at just \$300 million USD market cap (Scout is \$105 million USD market cap).
2. EVO grew revenue at a 47% CAGR and EBITDA at a 59% CAGR from 2015 to 2020. Of the 90% annualized TSR, 47% came from revenue growth, 12% from margin expansion, and 31% from multiple expansion. I expect Scout to grow revenue at an 79% CAGR over the next 7 years and expand its margins each year.
3. EVO has traded for 8-25x EV/sales and 20-45x EV/EBITDA its entire life at a public company. Scout trades for 8x 2021 EV/sales.

In short, Evolution Gaming provides a case study of a B2B supplier delivering outstanding TSR. The keys are having the leading product in a growing market and organically growing revenue at a high rate for many years – both of which are qualities exhibited by Scout.

Top Performers in the US >\$10 billion market cap since Evolution's IPO

Ticker	Name	Market Cap	Sector	Industry	5.5yr TSR
EVO SS	EVOLUTION GAMING GROUP	11,608	Consumer, Cyclical	Entertainment	90%
AMD US	ADVANCED MICRO DEVICES	89,627	Technology	Semiconductors	85%
NVDA US	NVIDIA CORP	300,220	Technology	Semiconductors	76%
RNG US	RINGCENTRAL INC-CLASS A	22,661	Technology	Software	67%
TAL US	TAL EDUCATION GROUP- ADR	43,812	Consumer, Non-cyclical	Commercial Services	61%
VEEV US	VEEVA SYSTEMS INC-CLASS A	39,898	Technology	Software	52%
TSLA US	TESLA INC	347,304	Consumer, Cyclical	Auto Manufacturers	50%
AMZN US	AMAZON.COM INC	1,560,882	Communications	Internet	48%
MELI US	MERCADOLIBRE INC	51,349	Communications	Internet	48%
PAYC US	PAYCOM SOFTWARE INC	15,540	Technology	Software	47%
NFLX US	NETFLIX INC	212,583	Communications	Internet	47%
<i>other companies removed after NFLX to highlight performance of mega-cap tech leaders</i>					
MSFT US	MICROSOFT CORP	1,544,028	Technology	Software	36%
AAPL US	APPLE INC	1,915,484	Technology	Computers	29%
MA US	MASTERCARD INC - A	330,500	Financial	Diversified Finan Serv	28%
FB US	FACEBOOK INC-CLASS A	759,523	Communications	Internet	24%
BABA US	ALIBABA GROUP HOLDING-SP AD	734,878	Communications	Internet	24%
GOOGL US	ALPHABET INC-CL A	1,032,734	Communications	Internet	20%

Technology leaders shown in bold

Conclusion

Scout is the leading provider of B2B DFS in Europe and is in the early innings of building out the market, pursuing this large opportunity with little-to-no competition. Being first puts Scout at a significant long-term advantage since DFS games have strong network effects driven by the size of contest prizes. As Scout continues to grow its B2B and B2C DFS businesses, it will distance itself from the limited competition and widen its competitive moat. In addition, I expect Scout to launch a B2B sportsbook in the next 1-2 years, which will only be additive to the company's growth prospects.

I expect the business to grow revenue at an 79% CAGR over the next 7 years, reaching 2.9 billion SEK in revenue at a 45% EBITDA margin. Based on comparable companies, I expect Scout to sell for 8x EV/sales and 18x EV/EBITDA and shares to be worth 1,025 SEK/share, giving the potential for a 23x return over the next 7 years, driving a 56% annualized return.

About Topline Capital

Collin McBirney launched Topline Capital in January 2019 after a decade of successful investing. Topline Capital invests in high quality, growth-oriented businesses run by exceptionally strong, well-aligned management teams. The fund has delivered top quartile performance since inception.

Before founding Topline Capital, Collin was an equity research analyst at PIMCO in Newport Beach for six years, covering the technology, financial, and industrial sectors. Prior to PIMCO, Collin was a credit analyst at Wells Fargo. Collin received his B.S. in Civil Engineering from UC Berkeley, and, during his undergraduate years, he was President of the Berkeley Investing Group. Collin lives with his wife, two dogs, and two cats in Santa Monica and enjoys reading, running, and traveling.

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