

Aspire Global

Sector: Betting/Entertainment

Regulatory Pressure

Redeye lowers Aspire Global's base case due to lowered estimates to reflect increased regulatory challenges. However, we still see substantial upside in the stock after the negative share price reaction. Regulation led the important B2B segment to disappoint in Q4'19, but the company has taken measures to cope, and the PariPlay acquisition performed very well.

Strengthening B2B

Aspire Global is increasing its B2B focus, with acquisitions as an important driver. PariPlay has started well and offers significant synergy opportunities. Moreover, the company is looking for additional acquisitions to strengthen its offering further. Its strong financial position with EUR 29m in cash supports this.

Regulatory Pressure

Excluding PariPlay, the company's weak B2B performance (Q4 revenues 14% below our estimates) was largely down to new regulatory requirements. The UK, Netherlands, and Nordics have all been challenging, and further burdens are in prospect. We had previously estimated that the regulatory pressure would play out during a longer period. Now it seems that the regulatory pressure will affect the coming years to a larger degree, playing out our bear point "Regulatory uncertainty". As a result, we have lowered the profit margins in our estimates, and the fair value has shifted towards our bear case. However, despite the margin pressure, we still expect the group to generate strong cash flows in the long term.

Very low expectations

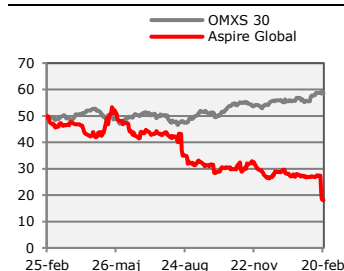
Despite pressure on Aspire's profitability and growth potential, market expectations are way too low at current multiples. Based on the estimates for 2020, Aspire Global is valued around an EV/EBITDA of 4x, compared to the median for its peers of 11.5x. Accordingly, we expect any sign of a turn in the negative momentum for revenues and earnings to lift the share. The company's financial position is also strong, with EUR 29m in cash, which makes it ready for additional acquisitions. We see a potential upside of about 130% to our base case valuation of **SEK 39** (57) per share. Our new bear case is SEK 14 (30) and bull case SEK 62 (85) per share.

KEY FINANCIALS (EUR)	2018	2019	2020E	2021E	2022E	2023E
Net sales	105	131	137	160	185	207
EBITDA	21	22	19	22	25	28
EBIT	19	18	14	16	19	21
EPS (adj.)	0.4	0.0	0.2	0.3	0.4	0.4
EV/Sales	1.7	1.0	0.5	0.3	0.2	0.1
EV/EBITDA	8.1	6.2	3.3	2.2	1.5	1.0
EV/EBIT	8.9	7.6	4.6	2.9	1.9	1.3
P/E	12.4	336.0	8.0	5.8	4.5	4.1

FAIR VALUE RANGE

BEAR	BASE	BULL
14	39	62

ASPIRE.ST VERSUS OMXS30



REDEYE RATING



KEY STATS

Ticker	ASPIRE.ST
Market	First North
Share Price (SEK)	16.82
Market Cap (MSEK)	780
Net Cash 20E (MSEK)	-110
Free Float	42%
Avg. daily volume ('000)	115

ANALYSTS

Jonas Amnesten
jonas.amnesten@redeye.se
 Kristoffer Lindström
kristoffer.lindstrom@redeye.se

Q4: Regulations pressuring the player values

Aspire Global: Expected vs. Actual

(EURm)	Q4'18	Q4'19	Q4'19E	Diff
Revenues	32.9	32.2	36.2	-11%
EBITDA	6.6	4.4	5.1	-15%
EBIT	6.0	3.1	4.0	-21%
EPS (EUR)	0.10	-0.26	-0.23	14%
<i>Sales growth Y/Y</i>	72%	-2%	10%	
<i>Sales growth Q/Q</i>	15%	-3%	9%	
<i>EBITDA margin</i>	20%	14%	14%	
<i>EBIT margin</i>	18%	10%	11%	

Source: Aspire Global, Redeye Research

Regulatory pressure, mainly in the UK, had a negative impact on the Aspire Global's revenues. The revenues in the fourth quarter came in -11% below our estimates, and the Q/Q growth was -3%, despite the addition of PariPlay. Lower marketing expenses than expected for the B2C segment also harmed the revenues.

On the cost side, gaming duties and distribution expenses came in below our expectations due to the lower revenues. The marketing spends for the B2C segment also came in well below our estimates, while the admin expenses came in above. All in all, the company almost reached the expected EBITDA margin (13.5% vs. estimated 14.2%). EPS was, however, heavily impacted by the retroactive tax settlement with the Israeli tax authorities; hence the settlement lowers the risk.

Aspire Global: Expected vs. Actual - B2B & B2C

(EURm)	Q4'18	Q4'19	Q4'19E	Diff
B2B revenues (incl. Inter-segment revenues)	21.3	22.9	26.6	-14%
<i>B2B inter-segment revenues</i>	2.0	1.7	2.3	
B2B EBITDA	4.4	3.4	4.7	-27%
B2B EBITDA margin	20%	15%	18%	
B2C revenues	13.6	11.1	11.9	-7%
B2C EBITDA	2.2	0.9	0.4	115%
B2C EBITDA margin	16%	8%	4%	

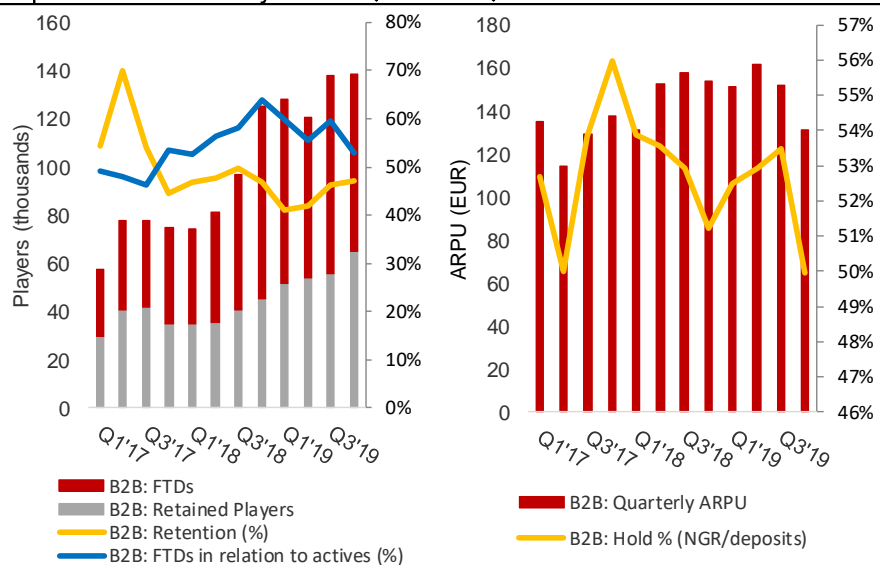
Source: Aspire Global, Redeye Research

The B2B segment was impacted by the regulatory changes that lead to lower player values in the UK. Excluding the PariPlay acquisition, the revenues for the B2B segment declined -13% Q/Q. The PariPlay acquisition, on the other hand, looks promising.

The revenues for the B2C operations came in -7% below our estimates, mainly driven by a lower player intake due to less marketing spend. As a result, the EBITDA margin came in much stronger than expected.

Operational KPIs

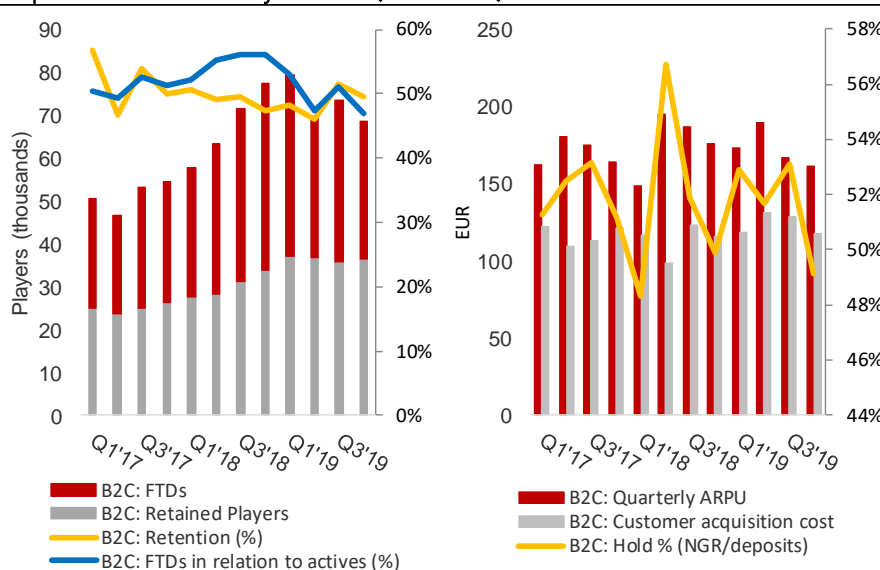
Aspire Global: B2B Player Data Q1 2017 - Q4 2019



Source: Aspire Global, Redeye Research

The number of active players for the B2B segment continues to increase thanks to improved retention and a healthy customer intake. However, the ARPU decreased close to -14% Q/Q in the fourth quarter, which mainly relates to the regulatory changes in the UK, we believe.

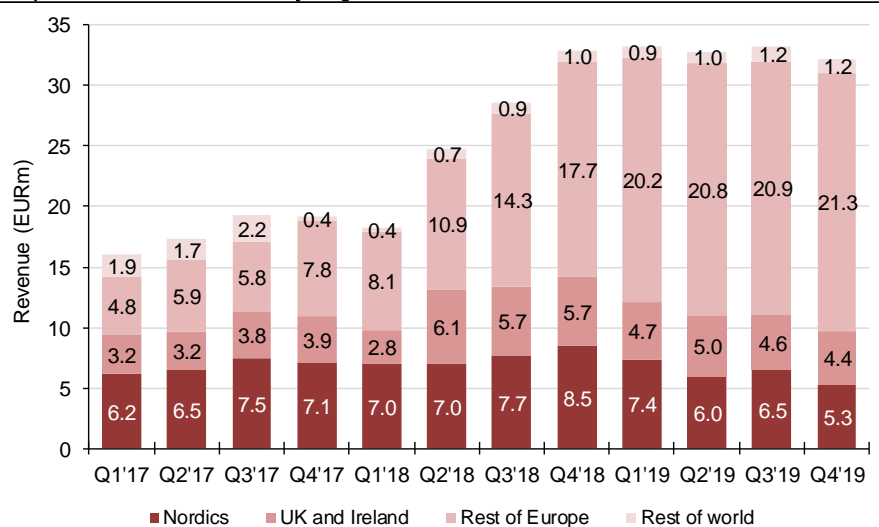
Aspire Global: B2C Player Data Q1 2017 - Q4 2019



Source: Aspire Global, Redeye Research

For the B2C segment, there is a slight downward trend in both active players and ARPU. However, this is expected as the company has decreased the marketing expense, and the focus for the company is on the B2B segment.

Aspire Global: Revenue by region



Source: Aspire Global, Redeye Research

The decline for the regions Nordic and UK & Ireland becomes obvious when looking back to Q4'18 in the graph above. The region Rest of Europe is the main region with 66% of the group's total revenues and has compensated for the decline in the previously mentioned regions.

Significant events during and after the quarter

- October 7th, Aspire Global finalized the acquisition of the leading game aggregator platform Pariplay for EUR 13.3m. With the acquisition, Aspire Global has gained control of yet another crucial part of the iGaming value chain – creating synergies, broadening the game portfolio and providing a channel to distribute propriety games outside the partner network. We believe this was an important strategic acquisition that will add long-term value to the group.
- Aspire Global appealed against the lawsuit made by the Swedish Consumer Agency (“KO”) in October claiming that the company violated the marketing provisions of the Gaming- and Marketing acts. As Sweden is a very small market for Aspire Global, we don't believe this will have any significant impact on the group.
- November 1st 2019, Aspire Global announced the coming entering into the regulated US market as Pariplay signed an agreement for New Jersey with longstanding partner 888casino. We believe this another proof of Pariplay's large potential.
- December 31st 2019, Aspire Global reached an agreement for a settlement with the Israeli Tax Authority in the previously disclosed tax audit. Good to clear out this uncertainty, even though the payment was somewhat larger than expected.

Q4 in conclusion

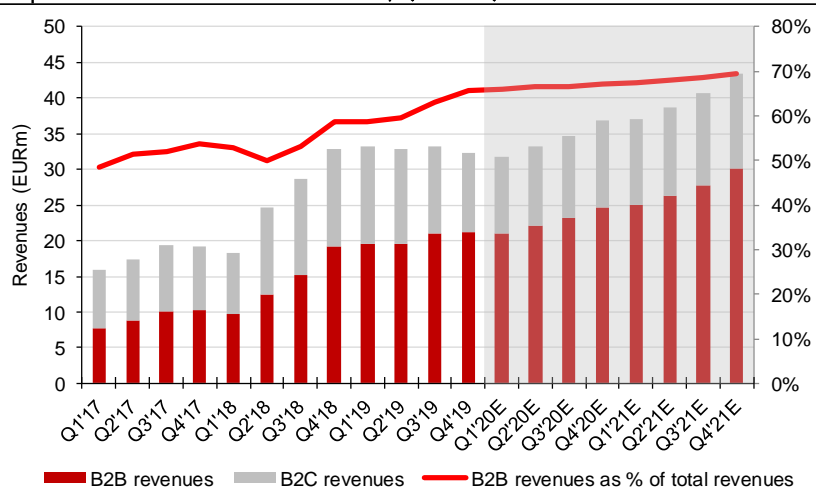
Regulatory changes pressured Aspire Global's revenues and earnings in the fourth quarter. The company is increasing its compliance efforts, and we expect the regulatory challenges to continue to pressure the profit margins in the coming years. However, the underlying player activity for the B2B segments looks stable and improving. The PariPlay acquisition also looks very promising, and we expect that the company will continue to add acquisition to improve its B2B offering. As a result, we believe the current share price is way too low.

Forecast

Aspire Global's future growth depends much on the underlying growth of the online gambling segment in Europe, as well as the company's ability to sign new agreements. However, Aspire Global has also shown that its business can develop and grow much faster than the general market. How much faster the business can grow, organically, then the underlying market depends much on how Aspire Global can improve its platform and enter new markets. New markets and platform improvements will also attract new B2B partners.

During 2019, regulatory challenges have pressured Aspire Global in several markets. Increased regulations and investments in compliance will continue to pressure the company's profit margin in the years to come, we believe. However, we expect the company to mitigate the negative earnings effect by entering new markets and utilizing the scalability of the B2B segment. Moreover, we believe that there are further synergy possibilities, on both top-line and the bottom-line, for the group in conjunction with PariPlay. The group will also start to sell the platform solution to large operators, which can become an important growth driver with high profitability.

Aspire Global: B2B vs B2C revenues, Q1'17 - Q4'21E



Source: Aspire Global, Redeye Research

For Q1 2020, we expect that the seasonality effects and the negative momentum will slightly decrease the revenues further. The margins should, on the other hand, improve somewhat due to lower admin expenses. For 2020 as a whole, we believe that the major sports events, with UEFA EURO as the main one, will drive sports betting growth. Furthermore, we believe that additional acquisitions are likely. However, we have not added any to our estimates.

Aspire Global: Financial forecasts summary

(EURm)	2018	Q1'19	Q2'19	Q3'19	Q4'19	2019	Q1'20E	Q2'20E	Q3'20E	Q4'20E	2020E	2021E	2022E
Revenues	104.6	33.2	32.8	33.2	32.2	131.4	31.8	33.2	34.7	36.9	136.6	159.7	184.6
Net Revenues (after EU VAT)	102.5	32.4	31.8	32.2	31.1	127.5	30.7	32.0	33.4	35.5	131.6	153.4	177.0
Distribution expenses	-64.1	-21.5	-21.3	-22.7	-21.6	-87.1	-21.2	-22.2	-23.2	-24.8	-91.4	-106.5	-122.5
Gaming duties	-4.4	-1.1	-1.2	-1.0	-0.8	-4.2	-0.8	-0.9	-1.0	-1.2	-4.0	-5.8	-8.8
Admin expenses	-12.8	-3.7	-3.2	-3.3	-4.4	-14.6	-4.2	-4.3	-4.4	-4.5	-17.4	-19.3	-21.0
EBITDA	21.2	6.1	6.1	5.2	4.4	21.7	4.4	4.5	4.8	5.1	18.8	21.7	24.6
D&A	-1.9	-0.9	-0.9	-0.9	-1.2	-4.0	-1.3	-1.3	-1.3	-1.3	-5.2	-5.6	-6.0
EBIT	19.3	5.2	5.1	4.3	3.1	17.7	3.2	3.3	3.5	3.7	13.6	16.1	18.6
Net earnings*	16.2	4.1	4.0	4.4	-12.1	0.4	2.1	2.2	2.5	2.6	9.4	13.1	17.1
EPS, EUR	0.36	0.09	0.09	0.09	-0.26	0.01	0.04	0.05	0.05	0.06	0.20	0.28	0.36
Growth Y/Y (%)	45%	81%	32%	16%	-2%	26%	-4%	1%	4%	15%	4%	17%	16%
Growth Q/Q (%)		1%	-1%	1%	-3%		-1%	4%	5%	6%			
EBITDA (%)	20%	18%	19%	16%	14%	17%	14%	14%	14%	14%	14%	14%	13%
EBIT (%)	18%	16%	16%	13%	10%	13%	10%	10%	10%	10%	10%	10%	10%

Source: Aspire Global, Redeye Research, *from continuing operations

Growth drivers

- **Underlying market:** The European market is Aspire Global's main market and is expected to grow around 5% annually during the period 2018-23.
- **New partnerships:** Aspire Global continues to sign interesting B2B partnerships and launch new B2B brands. The group launched seven brands in the fourth quarter. During 2019, the group has entered into several exciting partnerships with, for example, the large Codere group, Vips Casino and Digibet. This confirms our belief that Aspire Global has an attractive platform. We believe that Aspire Global will continue to add many new B2B partnerships in the coming years.
- **Larger operators:** Currently, Aspire Global is offering mainly white label solutions to smaller operators. However, the group will also start to offer its platform solution to larger operators. Capitalizing on the scalability of the group's robust platform.
- **New regulated markets:** Aspire Global's strategy is to gain and maintain strong positions in regulated markets. We, therefore, expect Aspire Global to continue to enter regulated markets if the conditions are the right. The company has also communicated that it launched several brands in markets within and outside of Europe.
- **Products improvements:** Continuing improving its platform with new features and game verticals will be important to increase the player value and customer intake. In the short-term, adding sportsbook and bingo on existing brands will be key growth drivers. The improvement of compliance-related items, such as KYC and responsible gambling, can have short-term negative effects but are important for the long-term growth. Improvements in the platform will also attract new B2B customers.
- **Acquisitions:** We believe that the Pariplay acquisition will be followed by additional acquisitions. This is supported by Aspire Global strong financial position.

Cost allocation

- **Distribution expenses:** We expect that it will increase as the business grows, but it will decrease in relation to the revenue. The distribution expenses include expenses such as game providers fees, payment providers fees, affiliate commissions, marketing expenses, etc. However, when the B2B partners increase in size, they generally get a high royalty rate, counteracting some of the positive scalability effects. Moreover, the acquired Pariplay has a large portion of distribution expenses within its aggregator operations.
- **Gaming duties:** We expect that it will increase in relation to the revenue as more markets are re-regulated. This means that a larger percentage of Aspire Global's revenue will be generated from these regulated markets in the future. In 2019, more than 50% of Aspire Global's revenue was generated from taxed and regulated markets. The Gaming duties and VAT relation to revenue were as low as 6% in 2019. We expect that these will increase to 10% within three years.
- **Administrative expenses:** This item includes expenses for Staff, Rent, Legal, Accounting, Professional Services, and Other. We expect that these expenses will increase over time, as the business grows. However, we expect that these expenses will decrease in relation to Aspire Global's revenue, in the long run, due to the scalability of the company's business.
- **Amortization and depreciation:** We expect that this expense item will increase slightly compared to the revenue in the short-term. This because the capitalization of tangibles and intangibles have increased faster during the last year than the revenue. The acquisitions like Pariplay will also increase the intangible assets. Nevertheless, we expect that the scalability of the platform, together with increased revenues, will lower the A&D expenses in relation to the revenue in the long run.

On the segment level, we expect, as already concluded, that the B2B segment will be the main driver as Aspire Global will continue to focus on B2B expansion. In 2022, we estimate that the B2B segment, excluding acquisitions, will generate about 70% of the revenues.

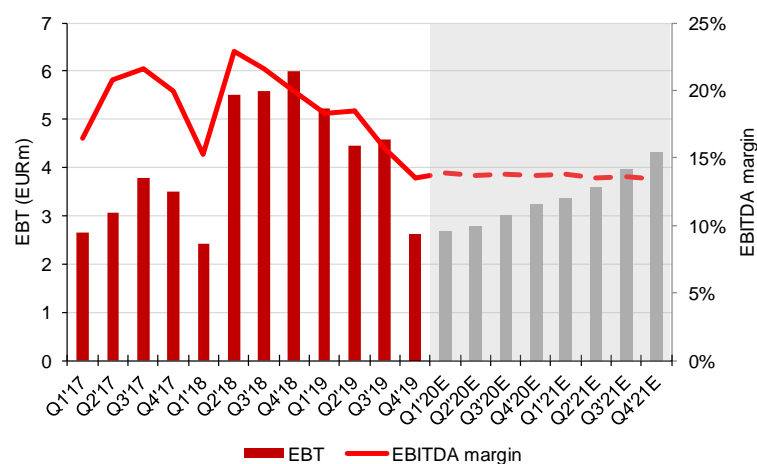
Aspire Global: Financial forecasts - B2B vs. B2C													
(EURm)	2018	Q1'19	Q2'19	Q3'19	Q4'19	2019	Q1'20E	Q2'20E	Q3'20E	Q4'20E	2020E	2021E	2022E
B2B revenues (incl. inter-seg. rev.)	63.8	21.5	21.5	22.8	22.9	88.7	22.6	23.7	24.9	26.6	97.7	116.7	137.5
B2B inter-segment revenues	7.2	2.1	2.0	1.8	1.7	7.6	1.6	1.7	1.7	1.8	6.9	7.6	8.3
B2B EBITDA	12.4	4.2	4.1	4.3	3.4	15.9	3.5	3.6	3.9	4.1	15.1	17.8	20.6
B2B EBITDA margin	19%	19%	19%	19%	15%	18%	16%	15%	16%	15%	15%	15%	15%
B2C revenues	48.0	13.8	13.2	12.3	11.1	50.3	10.8	11.2	11.6	12.2	45.8	50.6	55.4
B2C EBITDA	8.8	1.9	2.0	1.0	0.9	5.8	0.9	0.9	0.9	0.9	3.7	3.9	4.1
B2C EBITDA margin	18%	14%	15%	8%	8%	11%	9%	8%	8%	8%	8%	8%	7%

Source: Aspire Global, Redeye Research

Profit margins

We believe that Aspire Global's underlying business is highly scalable. However, increased regulations with regulatory requirements, gaming duties, and further need for compliance investments will mitigate any positive scalability effects. As a result, we expect that the earnings will be primarily driven by top-line growth.

Aspire Global: EBT and EBITDA margin



Source: Aspire Global, Redeye Research

Forecast changes

The new forecast includes several changes in the numbers and the assumptions compared to the last estimate. Based on the development during the fourth quarter, we expect that regulations will have a larger impact on both revenues and earnings the previously expected, mainly in the short-term. The long-term growth estimates and profit margins, beyond 2022, are maintained.

Aspire Global									
Estimate revisions (EURm)	2020E			2021E			2022E		
	New	Old	% chg	New	Old	% chg	New	Old	% chg
Revenue	137	156	-12%	160	192	-17%	185	219	-16%
EBITDA	18.8	24.4	-23%	21.7	30.0	-28%	24.6	31.3	-21%
EBITDA margin	14%	16%		14%	16%		13%	14%	
EPS (EUR)	0.20	0.33	-39%	0.28	0.44	-36%	0.36	0.49	-26%

Source: Redeye Research

Investment Thesis

- Strong lock-ins
- Broad growth potential
- Own platform and strong financial position
- Synergies

Strong lock-ins

Aspire Global has demonstrated over the years both significant B2B customer loyalty and the ability to attract brands from external platforms. This indicates that it offers an attractive platform that adds value to its customers and creates significant exit barriers through lock-ins. Key elements of this are its wide range of licenses, strong product, exclusive games, and beneficial and transparent business model with a revenue share business model.

In our view, existing customers would struggle to find superior alternatives that match these criteria.

Broad growth potential

Aspire Global's model gives it a broad range of options for growth. These include improving the product, adding new gaming verticals, adding new partnership brands, migrating brands from external platforms, marketing campaigns on the B2C brands, adding on new national gambling licenses, expansion in the US, acquisitions, and commercialize the proprietary games.

Own platform and strong financial position

Aspire Global's proprietary platform and strong financial position is the perfect combination for future growth. The scalable platform gives it a very strong incentive to grow, and its strong financial position gives it the means of doing so. The platform allows growth to be realized both organically and through acquisitions. Without it, acquisitions would not be a valid option. In some potential markets, it will be better to acquire an existing operator to acquire a license and gain knowledge about the market. Owning the platform also gives Aspire Global the freedom to enter any potential market offering the right conditions.

Synergies

We believe the Pariplay acquisition will lead to strong synergies. The synergies include monetizing Aspire Global's existing game portfolio of 200 games, lower cost of existing game aggregators, and sharing admin expenses. The Pariplay acquisition also increases the synergy possibilities in future acquisitions, especially as Pariplay has a strong distribution channel.

Counter-Thesis – Bear Points

Low player retention

Aspire Global player data raises some questions. While customer intake (FTDs) and Hold (Revenue/Deposit) are clearly impressive, retention levels are lower than competitors'. This could become a major competitive disadvantage in the long run. Currently, Aspire Global is able to compensate for this with substantial FTDs at a low cost per acquisition (CPA).

License convergence

One of the main lock-in effects that Aspire Global emphasizes is that customers will struggle to find alternative platforms that can match its licenses in multiple regulated markets. However, although the process will take several years, we expect all competing platforms to end up holding largely the same licenses.

New markets/M&A risk

We expect Aspire Global to continue entering new markets and making use of its strong financial position over the next few years. However, both entering new markets and making acquisitions carry significant risk and require prudent selection.

In new markets, deep knowledge of customer behavior will be lacking, as will insight into the most effective marketing channels and partners. Moreover, what works in one market may not work in another due to cultural or/and regulatory differences. Market entries could also require significantly more resources than initially estimated.

Achieving full synergies requires an acquired online gambling brand to be migrated to the existing platform. But migrations are very risky as they quite often lead to loss of customers for the migrated brand. It should though be taking into account that Aspire Global has done several successful migrations already.

Regulatory uncertainty

Aspire Global focuses on regulated markets as these offer better scope for attractive B2B partners and are less risky. Even so, regulated markets are not risk-free, as the UK's increased gaming tax illustrates. Moreover, we also expect that the gaming tax expenses will pressure profit margins in the next coming years.

Valuation

Redeye wants to understand and value the companies we cover better than anyone else. So we're refining our unique approach to assessing investment cases. Our new rating model evaluates companies across as many as 100 criteria. It is ultimately designed to generate more appropriate estimations of WACC than traditional financial theory. In Redeye's view, a realistic hands-on approach that combines fundamentals with common sense is called for in analysing small growth stocks. These lack the market visibility and trading liquidity of large-cap names. Our new model is a bold and important move in Redeye's pursuit of leadership in our sectors.

We derive our fair value from a fundamental DCF framework with three scenarios - Base case (most likely), Bear case (pessimistic) and Bull case (optimistic). A central part of the valuation is the weighted average cost of capital (WACC). Based on Redeye Rating, we estimate a WACC of 11.6%, which is used in all three scenarios.

DCF-valuation – Base Case

Summary:

- Sales CAGR of about 9% between 2019-2028
- An average EBIT margin of approximately 10% during the same period
- Terminal growth of 2% and terminal EBIT margin of 10%
- Our base case assumes that Aspire Global will continue to enter regulated markets and enter new B2B partnerships in these markets. In the long-run Aspire Global will be able to grow somewhat faster than the online gambling market due to the B2B solution and new regulated markets.

In the fourth quarter, the company's revenues were negatively impacted by regulatory challenges, mainly in the UK. As a result of the lower revenues, the margins also decreased. The company is taking action and making investments to cope with the increased demand for compliance. However, we expect the regulatory challenges to continue with hampered growth as a result and we also see a risk for further margin pressure.

Nevertheless, the company continues to focus on its B2B segment and we find the development for PariPlay as very promising. Moreover, Aspire Global has a strong financial position, which will enable additional acquisitions to strengthen the B2B segment further.

Our Base case yields a fair value of SEK 39 (57) per share.

Aspire Global					
Assumptions:	2019-28	2019-22	2022-28	DCF-value	
CAGR Sales	8.7%	12.0%	7.1%	WACC	11.6%
EBIT-margin (avg.)	10.4%	10.0%	10.6%	PV of FCF	118
ROE (avg.)	24%	28%	22%	PV of Terminal Value	55
Terminal				EV	173
Growth of FCF	2%			Net cash	0
EBIT margin	10.0%			Dividend correction	0
EV/S Exit multiple	0.6x			Associated companies	2
EV/EBIT Exit multi	6x			Minorities	0
				DCF-value (EUR)	174
				Fair value per share (SEK)	39
				Today's price	17
				Potential/Risk	135%

Source: Redeye Research

Relative Valuation

Peer valuation													
Company	EV (MSEK)	EV/Sales			EV/EBIT			SALES CAGR		EBIT CAGR		EBIT margin	
		2019	2020E	2021E	2019	2020E	2021E	19-21E	19-21E	2019	2020E	2021E	
Operators													
Star Group	117 525	4.8x	4.4x	4.1x	24.9x	20.4x	18.5x	9%	16%	19%	22%	22%	
Flutter Entertainment	94 997	3.5x	3.4x	3.1x	27.0x	28.1x	24.4x	6%	5%	13%	12%	13%	
GVC	86 546	1.9x	1.9x	1.8x	12.6x	11.8x	9.8x	3%	13%	15%	16%	18%	
William Hill	27 903	1.4x	1.4x	1.3x	15.5x	13.4x	11.3x	2%	n/a	9%	10%	12%	
Rank	15 796	1.9x	1.6x	1.4x	34.2x	12.1x	10.5x	16%	80%	6%	13%	14%	
Kindred	14 110	1.3x	1.1x	1.0x	17.0x	11.0x	11.4x	13%	22%	8%	10%	9%	
Betsson	8 552	1.7x	1.5x	1.4x	9.9x	8.9x	9.4x	10%	3%	17%	17%	15%	
888	4 817	0.9x	0.9x	0.8x	8.8x	8.5x	7.6x	6%	8%	10%	10%	11%	
Leovegas	3 574	1.1x	0.9x	0.8x	26.6x	10.3x	8.4x	19%	78%	4%	9%	9%	
Enlabs	1 116	2.7x	2.1x	1.7x	11.1x	8.1x	6.0x	24%	36%	24%	26%	29%	
Median	14 953	1.8x	1.5x	1.4x	16.2x	11.4x	10.2x	9%	16%	12%	13%	13%	
B2B													
Scientific Games	111 885	3.8x	3.3x	3.2x	48.4x	20.4x	17.7x	9%	65%	8%	16%	18%	
IGT	105 996	2.5x	2.3x	2.3x	18.8x	11.5x	11.3x	6%	29%	13%	20%	20%	
PlayTech	17 068	1.1x	1.1x	1.0x	6.9x	6.8x	6.2x	3%	6%	16%	16%	16%	
NetEnt	9 032	5.1x	4.2x	3.8x	17.1x	12.2x	10.7x	15%	26%	30%	34%	36%	
Gaming Innovation	750	0.6x	0.5x	0.5x	-1.3x	-75.7x	6.5x	9%	n/a	-45%	-1%	7%	
Median	17 068	2.5x	2.3x	2.3x	17.1x	11.5x	10.7x	9%	28%	13%	16%	18%	
Aspire Global	765	0.5x	0.5x	0.5x	4.1x	5.3x	4.5x	10%	-5%	13%	10%	10%	
At Base case	1 841	1.3x	1.3x	1.1x	9.8x	12.7x	10.8x						

Source: Bloomberg & Redeye Research

Looking at 2019 and 2020, we argue Aspire Global is valued at a large discount compared to its peers. We believe that the market is still somewhat unsure about Aspire Global's long-term growth of the earnings per share, especially with the weak development in the fourth quarter. The weak performance by the B2C segments has added additional uncertainties to the case. Moreover, we recognize that there most likely will be a margin pressure due to more regulated and taxed markets in the coming years. However, we expect Aspire Global to continue growing faster than peers and maintain a double-digit EBIT margin.

SOTP valuation

To add additional support to our DCF valuation, we have done a sum-of-the-parts valuation. It will also help bring clarity on how to value Aspire Global's different business areas.

SOTP valuation							
Segment	(EURm)	Sales 2020	EBITDA 2020	Sales Multiple	EBITDA Multiple	Value	Disc. Value
B2B: Platform, gaming development			14.7		10x	147	134
B2C: Online gambling		45.8		0.7x		32	29
Sum (EURm)						179	163
EV	163						
Net cash	0						
Value minorities	0						
Value assoc. comp.	2						
SOTP value	165						
Per share (SEK)	37						

Source: Redeye Research

For the larger B2B segment, we believe that an EBITDA multiple of 10x is fair. It is slightly below peers for 2020E, but we motivate this with the negative development in the profit margins. The multiple is also slightly below the one that NetEnt paid for Red Tiger. The discounted value for the B2B segment in our SOTP valuation is estimated to around EUR 140m, which is far above the existing EV for the whole group.

For the smaller B2C segment, we use a Sales multiple as the profit margin for the segments seem to be quite volatile. We believe a sales multiple of 0.7x is fair for a segment that is clearly not the group's main focus. This is also more or less in line with the multiple that Betsson paid for GiG's B2C operations.

All in all, the STOP valuation supports our DCF valuation, and it becomes obvious how undervalued Aspire Global currently is.

Potential M&A target

As already mentioned, we view Aspire Global as attractively valued. We believe that any large gambling company that is seeking both B2C and B2B opportunities in several European markets, would look at Aspire Global. However, as Aspire Global makes more acquisitions, and the complexity of the group increases, we believe a large merger becomes less likely. Nevertheless, a potential divestment of the B2C segment would not be completely unlikely.

Catalysts

We see several potential catalysts in the near future, i.e. within 12 months, that may close the valuation gap between the existing valuation and the base case.

- Successful acquisition of a content supplier that could improve the group's B2B offering further. We expect that Aspire Global can make several additional acquisitions with its strong financial position.
- A turnaround of the negative revenue and margin momentum.
- Entering into a partnership with a major media house in any of the larger markets.
- Aspire Global could be an interesting acquisition target for companies that like to acquire a strong B2B product on the European market.

Scenarios analysis

Bull case

Summary:

- Sales CAGR of about 12% between 2019-2028
- An average EBIT margin of approximately 14% during the same period.
- Terminal growth of 2% and terminal EBIT margin of 13%.
- Our Bull case assumes improved retention rates, successful geographical expansions, launching the proprietary games on external platforms, and value-creating acquisitions.

Our Bull case yields a fair value of SEK 62 (85) per share.

Bear case

Summary:

- Sales CAGR of about 6% between 2019-2028
- An average EBIT margin of approximately 5% during the same period.
- Terminal growth of 2% and terminal EBIT margin of 4%.
- Our Bear case assumes few new markets and few new B2B partnerships in existing markets. The B2C operation will not grow faster than the market at the same time as increased gaming tax will lower the margins further.

Our Bear case yields a fair value of SEK 14 (30) per share.

Valuation summary

Aspire Global is currently valued at a large discount compared to peers, which we find unjustified, despite the negative momentum in both revenues and profit margins. Given the company's strong position within the B2B segment and long-term growth potential, we would expect the company to be valued closer to the median for its peers. Moreover, the company still has a strong financial position that will enable further value-adding acquisitions.

On the other hand, the regulatory challenges that pressured the company in the fourth quarter will likely continue as more markets become regulated.

All in all, we have lowered our fair value for Aspire Global, mainly because of the increased regulatory pressure. The regulations have lowered growth and profit margins faster than estimated. Due to the development, we want to highlight the bear point "Regulatory uncertainty," and the fair value has shifted towards our previous bear case. However, we still see a large upside at the current valuation, and we still have a positive view of Aspire Global's long-term potential. DCF valuation indicates a value range of SEK 14-62 with a Base case of SEK 39 per share.

Bear Case 14 SEK

Sales CAGR of about 6% between 2019-28.

An average EBIT margin of approximately 5% during the same period.

Terminal growth of 2% and terminal EBIT margin of 4%.

Our Bear case assumes few new markets and few new B2B partnerships in existing markets. The B2C operation will not grow faster than the market at the same time as increased gaming tax will lower the margins.

Base Case 39 SEK

Sales CAGR of about 9% between 2019-28.

An average EBIT margin of approximately 10% during the same period.

Terminal growth of 2% and terminal EBIT margin of 10%.

Our base case assumes that Aspire Global will continue to enter regulated markets and enter new B2B partnerships in these markets. It the long-run Aspire Global will be able to grow faster than the online gambling market due to the B2B solution and new regulated markets.

Bull Case 62 SEK

Sales CAGR of about 12% between 2019-28.

An average EBIT margin of approximately 14% during the same period.

Terminal growth of 2% and terminal EBIT margin of 13%.

Our Bull case assumes improved retention rates, successful geographical expansions, launching the proprietary games on external platforms and value-creating acquisitions.

Summary Redeye Rating

The rating consists of three valuation keys, each constituting an overall assessment of several factors that are rated on a scale of 0 to 1 points. The maximum score for a valuation key is 5 points.

Rating changes in the report

People: 4

We have confidence in the management team and CEO Tsachi Maimon, who has been CEO of the company since 2013. We claim that his extensive experience and his long history in the company contribute to stability. Also, Tsachi has a good understanding of the market and has the ability to find and evaluate new business opportunities. Aspire Global benefits from a stable ownership structure where the founder and member of the board, Barak Matalon, is the largest shareholder. Also, there is institutional ownership among the biggest shareholders, which we see as a strength. A majority of the management team owns stock options and stocks.

Business: 3

Aspire Global has a historically proven business model and is operating in an industry that is expected to show healthy growth and profitability in the coming years. Further, we see growth opportunities with the prevailing regulation trend and the online gambling industry is rather recession-resilient. On the negative side, there are general and political risks associated with the industry itself. Forward-looking, we expect revenues from regulated markets to increase which will affect margins negatively.

Financials: 3

Aspire Global has a strong cash position with EUR 29m in cash at the end of Q4 19. In 2018, the company issued an EUR 27.5m secured bond under an EUR 80m framework to be prepared for M&A opportunities. We expect that the company will continue to have strong margins and cash flows as well as maintain a high return on invested capital.

INCOME STATEMENT	2018	2019	2020E	2021E	2022E
Net sales	105	131	137	160	185
Total operating costs	-83	-110	-118	-138	-160
EBITDA	21	22	19	22	25
Depreciation	-2	-4	-5	0	0
Amortization	0	0	0	-5	-6
Impairment charges	0	0	0	0	0
EBIT	19	18	14	16	19
Share in profits	0	0	0	0	0
Net financial items	-2	-3	-4	-2	-1
Exchange rate dif.	0	0	0	0	0
Pre-tax profit	17	14	10	14	18
Tax	-1	-15	-1	-1	-2
Net earnings	16	0	9	13	17

BALANCE SHEET	2018	2019	2020E	2021E	2022E
Assets					
<i>Current assets</i>					
Cash in banks	54	29	30	35	47
Receivables	22	25	26	31	37
Inventories	0	0	0	0	0
Other current assets	1	0	0	0	0
Current assets	76	54	56	67	84
<i>Fixed assets</i>					
Tangible assets	1	2	2	2	2
Associated comp.	2	4	4	5	5
Investments	0	0	0	0	0
Goodwill	0	7	7	7	7
Cap. exp. for dev.	0	0	0	0	0
Intangible rights	7	19	25	24	26
Non-current assets	11	13	13	13	13
Total fixed assets	21	47	54	54	58
Deferred tax assets	0	0	0	0	0
Total (assets)	97	101	110	121	142
Liabilities					
<i>Current liabilities</i>					
Short-term debt	0	0	0	0	0
Accounts payable	31	22	37	42	48
Current liabilities	0	15	16	18	21
Current liabilities	31	38	53	61	69
Long-term debt	27	27	15	5	5
Long-term liabilities	1	1	1	1	1
Convertibles	0	0	0	0	0
Total Liabilities	59	65	69	66	74
Deferred tax liab	0	0	0	0	0
Provisions	0	0	0	0	0
Shareholders' equity	39	34	38	51	63
Minority interest (BS)	0	0	0	0	0
Minority & equity	38	34	38	51	63
Total liab & SE	97	101	110	121	142

FREE CASH FLOW	2018	2019	2020E	2021E	2022E
Net sales	105	131	137	160	185
Total operating costs	-83	-110	-118	-138	-160
Depreciations total	-2	-4	-5	-6	-6
EBIT	19	18	14	16	19
Taxes on EBIT	-1	-1	-1	-1	-2
NOPLAT	18	17	12	15	17
Depreciation	2	4	5	6	6
Gross cash flow	20	21	18	20	23
Change in WC	4	3	14	3	3
Gross CAPEX	-6	-25	-11	-5	-8
Free cash flow	18	-1	21	18	17

CAPITAL STRUCTURE	2018	2019	2020E	2021E	2022E
Equity ratio	39%	34%	35%	42%	44%
Debt/equity ratio	69%	85%	50%	17%	15%
Net debt	-27	0	-11	-26	-37
Capital employed	10	29	20	16	16
Capital turnover rate	1.1	1.3	1.2	1.3	1.3

GROWTH	2018	2019	2020E	2021E	2022E
Sales growth	45%	26%	4%	17%	16%
EPS growth (adj)	58%	-98%	2,174%	38%	29%

DCF VALUATION	
WACC (%)	11.6 %

PROFITABILITY	2018	2019	2020E	2021E	2022E
ROE	50%	1%	26%	29%	30%
ROCE	39%	25%	21%	26%	28%
ROIC	198%	167%	42%	74%	104%
EBITDA margin	20%	17%	14%	14%	13%
EBIT margin	18%	14%	10%	10%	10%
Net margin	15%	0%	7%	8%	9%

DATA PER SHARE	2018	2019	2020E	2021E	2022E
EPS	0.36	0.01	0.20	0.28	0.36
EPS adj	0.36	0.01	0.20	0.28	0.36
Dividend	0.10	0.12	0.00	0.11	0.14
Net debt	-0.60	0.01	-0.24	-0.56	-0.78
Total shares	44.48	46.00	46.80	47.30	47.66

VALUATION	2018	2019	2020E	2021E	2022E
EV	172.8	134.6	62.1	46.9	36.0
P/E	12.4	336.0	8.0	5.8	4.5
P/E diluted	12.4	336.0	8.0	5.8	4.5
P/Sales	1.9	1.0	0.5	0.5	0.4
EV/Sales	1.7	1.0	0.5	0.3	0.2
EV/EBITDA	8.1	6.2	3.3	2.2	1.5
EV/EBIT	8.9	7.6	4.6	2.9	1.9
P/BV	5.2	4.0	2.0	1.5	1.2

SHARE PERFORMANCE	GROWTH/YEAR	18/20E
1 month	-38.4 %	Net sales
3 month	-45.2 %	Operating profit adj
12 month	-65.8 %	EPS, just
Since start of the year	-42.8 %	Equity

SHAREHOLDER STRUCTURE %	CAPITAL	VOTES
Barak Matalon	26.0 %	26.0 %
Pini Zahavi	16.2 %	16.2 %
Eli Azur	16.2 %	16.2 %
Aharon Aran	6.5 %	6.5 %
Swedbank Robur Ny Teknik BTI	5.3 %	5.3 %
Avanza Pension	3.8 %	3.8 %
BNY MELLON	3.2 %	3.2 %
Fondita Nordic small CAP	1.8 %	1.8 %
Lightport	1.7 %	1.7 %
BNP Paribas SEC Services London	1.6 %	1.6 %

SHARE INFORMATION	
Reuters code	ASPIRE.ST
List	First North Premier
Share price, SEK	16.82
Total shares, million	46.4
Market Cap, MSEK	780

MANAGEMENT & BOARD	
CEO	Tsachi (Isaac) Maimon
CFO	Motti Gil
Chairman	Carl Klingberg

FINANCIAL INFORMATION	

ANALYSTS	
Jonas Amnesten	Redeye AB
jonas.amnesten@redeye.se	Mäster Samuelsgatan 42, 101r
	111 57 Stockholm

Kristoffer Lindström
kristoffer.lindstrom@redeye.se

Redeye Rating and Background Definitions

Company Quality

Company Quality is based on a set of quality checks across three categories; PEOPLE, BUSINESS, FINANCE. These are the building blocks that enable a company to deliver sustained operational outperformance and attractive long-term earnings growth.

Each category is grouped into multiple sub-categories assessed by five checks. These are based on widely accepted and tested investment criteria and used by demonstrably successful investors and investment firms. Each sub-category may also include a complementary check that provides additional information to assist with investment decision-making.

If a check is successful, it is assigned a score of one point; the total successful checks are added to give a score for each sub-category. The overall score for a category is the average of all sub-category scores, based on a scale that ranges from 0 to 5 rounded up to the nearest whole number. The overall score for each category is then used to generate the size of the bar in the Company Quality graphic.

People

At the end of the day, people drive profits. Not numbers. Understanding the motivations of people behind a business is a significant part of understanding the long-term drive of the company. It all comes down to doing business with people you trust, or at least avoiding dealing with people of questionable character.

The People rating is based on quantitative scores in seven categories:

- Passion, Execution, Capital Allocation, Communication, Compensation, Ownership, and Board.

Business

If you don't understand the competitive environment and don't have a clear sense of how the business will engage customers, create value and consistently deliver that value at a profit, you won't succeed as an investor. Knowing the business model inside out will provide you some level of certainty and reduce the risk when you buy a stock.

The Business rating is based on quantitative scores grouped into five sub-categories:

- Business Scalability, Market Structure, Value Proposition, Economic Moat, and Operational Risks.

Financials

Investing is part art, part science. Financial ratios make up most of the science. Ratios are used to evaluate the financial soundness of a business. Also, these ratios are key factors that will impact a company's financial performance and valuation. However, you only need a few to determine whether a company is financially strong or weak.

The Financial rating is based on quantitative scores that are grouped into five separate categories:

- Earnings Power, Profit Margin, Growth Rate, Financial Health, and Earnings Quality.

Redeye Equity Research team

Management

Björn Fahlén

bjorn.fahlen@redeye.se

Håkan Östling

hakan.ostling@redeye.se

Technology Team

Jonas Amnesten

jonas.amnesten@redeye.se

Henrik Alveskog

henrik.alveskog@redeye.se

Havan Hanna

havan.hanna@redeye.se

Kristoffer Lindström

kristoffer.lindstrom@redeye.se

Erika Madebrink

erika.madebrink@redeye.se

Fredrik Nilsson

fredrik.nilsson@redeye.se

Tomas Otterbeck

tomas.otterbeck@redeye.se

Eddie Palmgren

eddie.palmgren@redeye.se

Magnus Skog

magnus.skog@redeye.se

Oskar Vilhelmsson

oskar.vilhelmsson@redeye.se

Viktor Westman

viktor.westman@redeye.se

Linus Sigurdsson (Trainee)

linus.sigurdsson@redeye.se

Editorial

Eddie Palmgren

eddie.palmgren@redeye.se

Mark Siöstedt

mark.siostedt@redeye.se

John Hintze

john.hintze@redeye.se

Johan Kårestedt (Trainee)

johan.karestedt@redeye.se

Life Science Team

Gergana Almquist

gergana.almquist@redeye.se

Oscar Bergman

oscar.bergman@redeye.se

Anders Hedlund

anders.hedlund@redeye.se

Arvid Necander

arvid.necander@redeye.se

Erik Nordström

erik.nordstrom@redeye.se

Klas Palin

klas.palin@redeye.se

Jakob Svensson

jakob.svensson@redeye.se

Ludvig Svensson

ludvig.svensson@redeye.se

Disclaimer

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Redeye Rating (2020-02-25)

Rating	People	Business	Financials
5p	11	12	4
3p - 4p	92	70	29
0p - 2p	9	30	79
Company N	112	112	112

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Jonas Amnsten owns shares in the company : Yes

Kristoffer Lindström owns shares in the company : No

Redeye performs/have performed services for the Company and receives/have received compensation from the Company in connection with this.