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Zacks Small-Cap Research

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Elys Game Tech (ELYS-NASDAQ)

ELYS: Expanding Strategic Relationship to Leverage Growth Opportunities

ELYS reported preliminary 4Q20 metrics that show y/y revenue advances and also suggest market share gains. The company attributes the gains to its omni-channel distribution strategy, among other factors that bode well for future growth, in our view.

OUTLOOK

ELYS recently expanded its strategic partnership with Sportradar in order to offer a broad range of live, in-game wagering options at U.S. retail sports betting locations the company plans to launch. The new agreement will give ELYS access to Sportradar official pre-game and in-play data for major U.S. sports. Sportradar offers data coverage encompassing more than 60 sports worldwide. ELYS expects this sports data for live in-game wagers to enhance its product portfolio for live streaming sporting events and to create new opportunities in the important U.S. sports betting market. The company intends to open its first U.S. locations in Washington, D.C.

Current Price (2/26/21)	$5.94
Valuation	**$10.00**

SUMMARY DATA

52-Week High	**$7.21**
52-Week Low	**$1.15**
One-Year Return (%)	**104.12**
Beta	**3.97**
Average Daily Volume (sh)	**1,631,113**
Shares Outstanding (mil)	**17**
Market Capitalization ($mil)	**$99**
Short Interest Ratio (days)	**N/A**
Institutional Ownership (%)	**0**
Insider Ownership (%)	**41**
Annual Cash Dividend	**$0.00**
Dividend Yield (%)	**0.00**
5-Yr. Historical Growth Rates	
Sales (%)	**43.2**
Earnings Per Share (%)	**N/A**
Dividend (%)	**N/A**
P/E using TTM EPS	**N/A**
P/E using 2020 Estimate	**N/A**
P/E using 2021 Estimate	**N/A**
Zacks Rank	**N/A**

Risk Level	**High**
Type of Stock	**Small-Blend**
Industry	**Gaming**

ZACKS ESTIMATES

Revenue
(in millions of $)

	Q1 (Mar)	Q2 (Jun)	Q3 (Sep)	Q4 (Dec)	Year (Dec)
2019	9 A	9 A	7 A	10 A	36 A
2020	10 A	5 A	10 A	13 E	38 E
2021	11 E	10 E	11 E	13 E	45 E
2022					54 E

EPS / Loss Per Share

	Q1 (Mar)	Q2 (Jun)	Q3 (Sep)	Q4 (Dec)	Year (Dec)
2019	-$0.33A	-$0.17A	-$0.06A	-$0.35A	-$0.91 A
2020	$0.01 A	-$0.20 A	-$0.08 A	-$0.01 E	-$0.27 E
2021	-$0.01 E	-$0.08 E	-$0.07 E	-$0.07 E	-$0.23 E
2022					-$0.08 E

Quarters might not = annual due to rounding / share count

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WHAT'S NEW?

- **Expanded Sportradar relationship supports ability to leverage growth opportunities** Elys recently extended its strategic partnership with Sportradar, a leading provider of sports betting and sports entertainment products and services worldwide, in order to offer a broad range of planned live, in-game wagering options at U.S. retail sports betting locations. The company intends to open the first locations in Washington DC. The new agreement will give Elys access to official pre-game and in-play data for major U.S. sports from Sportradar, which offers data coverage encompassing more than 60 sports. ELYS expects this to enhance its product portfolio for live streaming sporting events and to create new opportunities in the important U.S. sports betting market.

- **Industry forecasts support expectation of significant market opportunity** Morningstar forecasts that U.S. sports betting can reach $6.2 billion in industry revenue by 2024 and other forecasts are even higher, supporting ELYS's expectation that the U.S. sports betting and online gaming market represents a sizable opportunity for its Elys platform.

- **Preliminary 4Q20 metrics show year-over-year advances and suggest market share gains** Separately; the company recently reported 4Q20 preliminary net gaming revenue of about $13.1 million, up 26% compared to $10.4 million in 4Q19. Web-based gross gaming revenue advanced roughly 69% year-over-year. By comparison, year-to-date revenue through 3Q 2020 was about flat year-over-year ($24.7 million compared to $25.1 million), reflecting the economic downturn caused by the COVID-19 pandemic and the closure of many retail venues that form the basis for much of the company's bricks-and-mortar channel.

- **ELYS attributes omni-channel distribution strategy as factor driving gains** In Italy, ELYS's 4Q20 online gaming performance advanced 65% compared to a roughly 37.5% year-over-year revenue improvement in the nation's online sports betting sector, according to Italian news agency AGIMEG, suggesting market share gains for ELYS. The company attributes the gains to its omni-channel distribution approach, among other factors.

COMPANY UPDATE

Elys Game Technology (ELYS), a vertically-integrated international company engaged in various aspects of the leisure gaming industry, has taken several steps to bolster its position in North America to benefit from anticipated market growth. For instance, reflecting the anticipated importance of the U.S. market, ELYS created a U.S. subsidiary, Elys Gameboard Technologies, LLC. ELYS also opened offices in North America. The company's North American corporate presence includes a head office in Toronto, Canada and branches in Fort Lauderdale and Boca Raton, Florida. ELYS also relocated and/or hired top executives to its North American headquarters.

ELYS hired a former Sportradar and IGT senior executive, Matteo Monteverdi. He joined the company as president responsible for leading its international expansion and U.S. operations and overseeing development of the U.S. platform and expansion. Subsequently, Elys named him CEO effective January 1, 2021. Given his experience as a senior executive at Sportradar and also at IGT, one of the leading technology / device providers to the gaming industry, he has extensive industry experience in North America and also understands ELYS's home market, Italy. The company's initial U.S. deployment is scheduled to be in

Sportradar Partnership

In advance of introducing its sports betting platform in the U.S., ELYS extended its strategic partnership with Sportradar last month in order to offer a broad range of live, in-game wagering options at U.S. retail sports betting locations the company intends to open, beginning in Washington DC. Sportradar is a leading global provider of sports betting and sports entertainment products and services. The new agreement will give Elys access to official pre-game and in-play data for major U.S. sports from Sportradar.

Sportradar has 20 years of operating history and is an official partner of the NBA, NFL, NHL, MLB, NASCAR, FIFA and UEFA, among other sports leagues and federations.

ELYS expects this sports data for live in-game wagers to enhance its product portfolio for live streaming sporting events and to create new opportunities in the U.S. sports betting market. Sportradar data coverage encompasses more than 60 sports

U.S. Sports Betting Market

In the U.S., the Interstate Wire Act of 1961 and PASPA banned sports betting through May 2018 except for four states, Montana, Oregon, Nevada, and Delaware, where sports betting had been grandfathered. In May 2018, the U.S. Supreme Court overturned PASPA, which allowed individual states to legislate on whether to allow sports betting on a state by state basis. Several states have already passed legislation to allow online wagering, creating a sizable market opportunity. Since the May 2018 Supreme Court action, significant sums have been wagered with U.S. sportsbooks, according to ESPN, with substantial further growth expected.

Morningstar forecasts that U.S. sports betting can reach $6.2 billion in industry revenue by 2024 and other forecasts are even higher, supporting ELYS's expectation that the U.S. sports betting and online gaming market represents a sizable opportunity for its Elys platform. The company obtained GLI-33 certification and is the process of applying for regulatory approvals, with no likely impediments expected to occur. The strategy will be to roll the platform out to various gaming operators to process sports bets on a SaaS basis through Elys. Inaugural markets for Elys are Washington, DC. as noted, and Montana.

Washington, DC: Elys recently obtained GLI-33 certification to begin operating in Washington, D.C. The company intends to integrate Elys at POS terminals and has also formed a strategic partnership with the United Tote Company. The Elys platform is economical. It can be installed at a cost of approximately $70,000 per location compared to more than $0.5 million and even up to $2 million per site for some competitors' platforms, according to management.

In February of 2020, ELYS entered into an agreement with Handle 19, a sportsbook that enables wagers on major league sporting events, and Grand Central, LLC, which each operate sports bar in Washington, DC, to provide sports betting products and services.

Montana: NWGI formed a five-year agreement with Fleetwood Gaming in March 2019 for exclusive rights to distribute the Elys platform at select non-tribal locations, including sports bars and pubs in Montana. Over 12 million tourists visit Montana each year and gross gaming revenue from video gaming terminals (VGT) was about $400 million in 2017. Montana is home to 13 tribal casinos, according to the American Gaming Association, and about 1,440 electronic device locations. Fleetwood Gaming is a subsidiary of a company that was founded in 1951 as a vending machine distribution business and subsequently expanded into amusement and gaming equipment. The company formed a five-year agreement in April 2019 with the Chippewa Cree Tribe, which operates the Northern Winz Casino, to install the Elys platform at the casino that Fleetwood Gaming will manage.
Financial

FINANCIAL UPDATE

Separately, the company recently reported 4Q20 preliminary net gaming revenue of about $13.1 million, up 26% compared to $10.4 million in 4Q19. Web-based gross gaming revenue advanced roughly 69% year-over-year. By comparison, year-to-date revenue through 3Q 2020 was about flat year-over-year ($24.7 million compared to $25.1 million), reflecting the economic downturn caused by the COVID-19 pandemic and the closure of many retail venues that form the basis for much of the company's bricks-and-mortar channel.
In Italy, ELYS's 4Q20 online gaming performance advanced 65% compared to a roughly 37.5% year-over-year revenue improvement in the nation's online sports betting sector, according to Italian news agency AGIMEG, suggesting market share gains for ELYS.

The company attributes the gains to its omni-channel distribution strategy, among other factors. We expect the company to continue to benefit from its omni-channels and are raising our 4Q20 and 2021 revenue forecasts. We expect some slight quarter to quarter revenue lumpiness, reflecting timing of rolling out new markets and the overall sports schedule. We are introducing our 2022 revenue forecast of $54 million.

The company is well-capitalized. In 3Q 2020, ELYS completed an equity offering of 4.2 million units at $2.40 per unit, raising gross proceeds of about $10 million. Each unit equals one share of stock and one five-year warrant to acquire an additional share at an exercise price of $2.50 per share. Reflecting the offering, the company had cash of $10.6 million at the end of 3Q 2020.

VALUATION

We believe ELYS shares represent an option on management's ability to continue to execute its growth strategy, which encompasses bringing a betting platform with a proven track record in Italy to the growing U.S. and potentially Canadian market. The company expects to capitalize on the anticipated greenlighting of online wagering in a growing number of U.S. states and potentially Canadian provinces and customer adoption of online betting. At this early stage, we believe that ELYS has early mover advantage. If the company's platform continues to gain traction with both tribal and non-tribal operators as management anticipates, we would expect multiple expansion on ELYS shares.

Reflecting the company's opportunities in North America and as its home market, Italy, consolidates, ELYS continues to hit its milestones regarding its growth objectives. As we have noted in prior reports, we also believe the potential opening of the Canadian market, as well as the company's recent initiatives to enhance its growth prospects in North America, such as the extended Sportrader relationship, could accelerate Elys's prospects and boost valuation.

As a result, we are raising our valuation expectation, as we anticipate further multiple expansion and as we look ahead to 2022-23. At $10.00 per share, the shares would trade at about 3x forward 2022 revenue. By comparison, larger players in the overall gaming space command significantly higher multiples on a price to revenue basis. DraftKings, for instance, trades at a double digit 24x multiple on this basis, according to Yahoo Finance data.

We believe the risk / reward ratio on ELYS shares could be attractive for investors who want exposure to the sector and have a higher than average risk tolerance and longer time horizon.

RISKS

We believe risks include those outlined below, among others.

- Among the biggest risks, in our view, is that the ELYS does not gain market share as quickly as the company expects and / or the Elys platform might not gain traction with operators in the U.S. as quickly as ELYS anticipates, which leads to slower than anticipated revenue ramp.
- The company operates in a highly regulated industry and might not obtain the licenses and/or certifications it needs as quickly as it anticipates.
- The company could incur unanticipated costs associated with its expansion strategy and for marketing to promote the Elys platform.
- Additional M&A transactions might take longer than expected to find or might not close at all.
- Competition could increase.
- The economic outlook remains uncertain.
- Including a large shareholder, roughly two-thirds of ELYS shares are held by insiders.

RECENT NEWS

- On February 22, 2021, the company announced that it had extended its partnership with Sportradar to provide live U.S. sports data on its betting platform.
- Elys reported preliminary 4Q20 revenue metrics on January 28, 2021.
- Elys expanded its corporate communications team on January 14, 2021.
- On December 30, 2020, Elys announced that it had become the first dually listed technology company trading on the NASDAQ and Canadian NEO Exchange.
- Elys appointed Matteo Monteverdi CEO on November 25, 2020.
- Elys announced its name change to Elys Game Technology (from Newgioco Group) on November 10, 2020.
- Elys announced plans to install 400 self-service POS terminals on October 12, 2020.
- ELYS announced that it had obtained GLI-33 certification to launch the Elys platform in Washington, D.C. on September 9, 2020.
- ELYS closed a $10.0 million offering on August 17, 2020.
- ELYS reported 1Q20 results on July 23, 2020.

ELYS Game Technology Group

Elys Game Technology Income Statement & Projections ($)

	2018	1Q19	2Q19	3Q19	4Q19	2019	1Q20	2Q20	3Q20A	4Q20E	2020E	2021E
Revenue	34,575,097	9,266,295	9,105,353	6,755,845	10,455,638	35,583,131	10,170,174	4,810,269	9,701,796	13,111,370	37,793,609	44,596,459
Selling expenses	24,142,110	7,407,706	6,268,772	3,156,446	10,751,568	27,584,492	6,215,161	3,957,366	7,154,623	8,816,286	26,143,436	33,001,379
G&A expenses	10,588,162	3,197,455	3,360,284	3,259,195	1,177,620	10,994,554	2,820,961	2,883,427	3,156,505	3,377,460	12,238,353	14,716,831
Total Costs and Expenses	34,730,272	10,605,161	9,629,056	6,415,641	11,929,188	38,579,046	9,036,122	6,840,793	10,311,128	12,193,746	38,381,789	47,718,211
Gain /(Loss) from Operations	(155,175)	(1,338,866)	(523,703)	340,204	(1,473,550)	(2,995,915)	1,134,052	(2,030,524)	(609,332)	917,624	(588,180)	(3,121,752)
Interest expense, net	(619,709)	(147,636)	(277,639)	(1,092,887)	545,719	(972,443)	(139,974)	(33,099)	37,273	(34,436)	(170,236)	(171,939)
Amortization of debt discount	(1,995,128)	(1,356,476)	(739,604)	-	(2,058,842)	(4,154,922)	(450,229)	(286,845)	(109,623)	(298,434)	(1,145,131)	(343,539)
Gain /(loss) marketable securities	(75,000)	(25,000)	-	125,000	(197,500)	(97,500)	130,000	592,500	(56,093)	(60,435)	605,972	363,583
Other (Expenses) Income	318,956	-	(28,218)	314,965	(742,596)	(455,849)	11,798	(705,528)	(293,604)	(575,711)	(1,563,045)	(156,304)
Total Other Expenses	(2,370,881)	(1,529,112)	(1,045,461)	(652,922)	(2,453,219)	(5,680,714)	(448,405)	(432,972)	(422,047)	(969,016)	(2,272,440)	(308,199)
Pretax loss	(2,526,056)	(2,867,978)	(1,569,164)	(312,718)	(3,926,769)	(8,676,629)	685,647	(2,463,496)	(1,031,379)	(51,392)	(2,860,620)	(3,429,951)
Taxes	(1,102,701)	(245,974)	(209,056)	(283,905)	140,759	(598,176)	(528,038)	(62,059)	(181,902)	(68,997)	(840,996)	(420,498)
Net Loss	(3,628,757)	(3,113,952)	(1,778,220)	(596,623)	(3,786,010)	(9,274,805)	157,609	(2,525,555)	(1,213,281)	(120,389)	(3,701,616)	(3,850,449)
Per share data												
Loss per share	($0.38)	($0.33)	($0.17)	($0.06)	($0.35)	($0.91)	$0.01	($0.20)	($0.08)	($0.01)	($0.27)	($0.23)
Average shares outstanding	9,485,993	9,549,358	9,870,357	10,241,996	11,244,018	10,226,432	12,209,833	12,434,338	14,525,372	16,457,526	13,906,767	16,458,526

Source: Company reports & Zacks

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