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Zacks Small-Cap Research

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M. Marin
312-265-9211
mmarin@zacks.com

scr.zacks.com
10 S. Riverside Plaza, Chicago, IL 60606

Elys Game Tech (ELYS-NASDAQ)

ELYS: 1H21 Growth Underscores Strong Market Demand

ELYS is rolling-out its ELYS gaming platform in the U.S. and potentially Canadian markets where the company believes it has early mover advantage. With $19.2 million in cash & equivalents at the end of 2Q21, the company is well-positioned to advance its growth strategy, in our view. ELYS is ready to enter the Washington, D.C. market as soon as it receives regulatory approval and believes that the model it has developed for this initial market launch can be replicated in many other locations and markets. ELYS' recent USB acquisition is expected to facilitate its expansion efforts.

OUTLOOK

ELYS' turnover reached $463.3 million in 1H21, which exceeds the $454.1 million registered in the full year of 2019 and represents more than 80% of the $574.3 million registered in full year 2020. Consistent with earlier periods during the pandemic, the drivers of turnover growth shifted from land-based to web-based, primarily reflecting the impact of COVID-19, although ELYS believes that some land-based betting shops might be able to re-open as the 2021-2022 European soccer season gets underway. In turn, this could provide additional growth in the company's home market of Italy that could enhance 2H21 growth.

Current Price (8/27/21)	$4.39
Valuation	**$8.00**

SUMMARY DATA

52-Week High	**$7.21**
52-Week Low	**$1.36**
One-Year Return (%)	**150.9**
Beta	**3.63**
Average Daily Volume (sh)	**435,525**
Shares Outstanding (mil)	**23**
Market Capitalization ($mil)	**$102**
Short Interest Ratio (days)	**1.1**
Institutional Ownership (%)	**2**
Insider Ownership (%)	**41**
Annual Cash Dividend	**$0.00**
Dividend Yield (%)	**0.00**
5-Yr. Historical Growth Rates	
Sales (%)	**N/A**
Earnings Per Share (%)	**N/A**
Dividend (%)	**N/A**
P/E using TTM EPS	**N/A**
P/E using 2021 Estimate	**N/A**
P/E using 2022 Estimate	**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 A	37 A
2021	14 A	12 A	11 E	13 E	49 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	-$0.37 A	-$0.71 A
2021	-$0.03 A	-$0.13 A	-$0.04 E	-$0.10 E	-$0.30 E
2022					-$0.06 E

Quarters might not = annual due to rounding / share count

Disclosures on page 10

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WHAT'S NEW?

- **Turnover up significantly in 1H21...** Turnover, or betting handle, has grown from about $122 million in 2016 to $574 million in 2020, which represents a CAGR of 47% as the company's expansion and market share gains continue. Turnover reached $463.3 million in 1H21, which exceeds the $454.1 million registered in the full year of 2019 and represents more than 80% of the $574.3 million registered in full year 2020.

- **Online growth remains strong** Consistent with earlier periods during the pandemic, the drivers of turnover growth shifted from land-based to web-based, primarily reflecting the impact of COVID-19, although ELYS believes that some land-based betting shops might be able to re-open as the 2021-2022 European soccer season gets underway. In turn, this would provide additional growth in the company's home market of Italy that could enhance 2H21 growth.

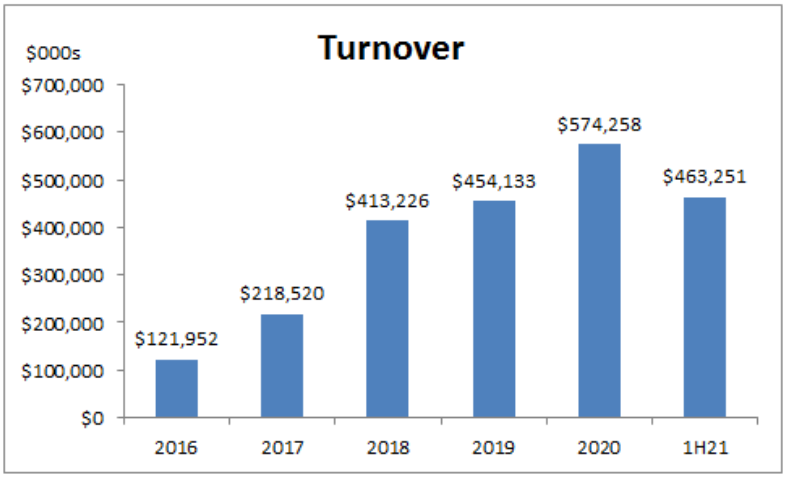
- **USB acquisition expected to facilitate expansion efforts** ELYS completed the acquisition of Bookmakers Company US LLC (USB) earlier in 3Q21. Management believes the acquisition will enhance its global growth strategy. The USB team has extensive sportsbook experience. ELYS expects USB will expand its customer base and U.S. footprint. Moreover, the feedback that ELYS can get through the USB unit will enable it to better adapt and innovate in order to introduce products and services to meet player needs.

- **DC roll-out represents model that can easily be replicated in other venues / markets** The company's first U.S. rollout is planned for Washington, D.C. and the company believes it is well-positioned to capture market share in the market. The Washington, D.C. metropolitan area authorized retail and online sports betting in 2020 and retail players appear to be enthusiastic. The company is ready to enter the Washington, D.C. market as soon as it receives regulatory approval. Moreover, ELYS believes that the model it has developed for this initial market can be replicated in many other locations in Washington DC and potentially other markets.

1H21 RESULTS SHOW STRENGTH OF UNDERLYING BUSINESS: HIGHLIGHTS

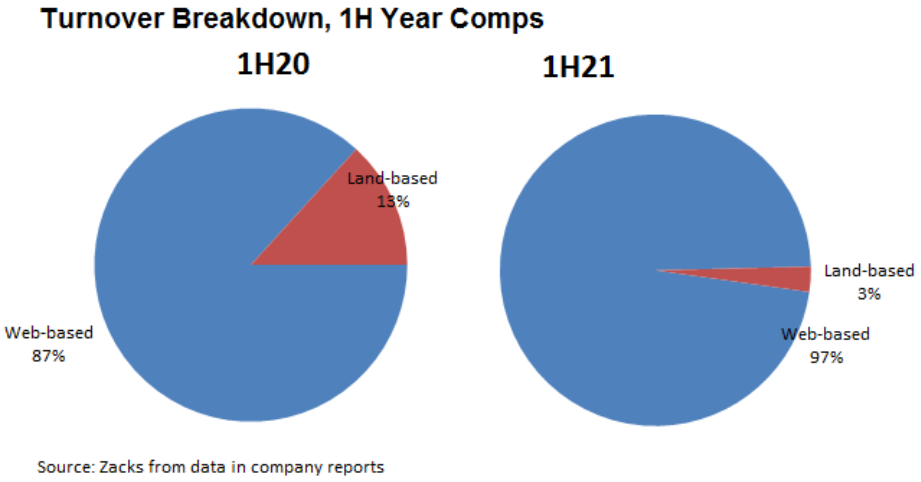
- 1H21 betting handle more than doubled to $463.3M; 2Q21 betting handle up 134% y/y to $220.1M
- 1H21 gross gaming revenue (GGR) up 83.9% y/y to $32.3M; 2Q21 up 153.8% to $14.9M
- 1H21 revenue up 72.5% to $25.8M and 143% in 2Q21 to $11.7M
- Sportsbook hold - 15.8% YTD and 14.5% in 2Q21
- Cash & equivalents to support growth $19.2M at June 30, 2021
- USB acquisition expected to strengthen & facilitate North American opportunity

Elys Game Technology (ELYS) reported 2Q21 results last week. Year-to-date, the company has recorded record handle turnover of $463.3 million and revenue of $25.8 million. These metrics represent respective year-over-year growth of 120.5% and 72.5%, despite the negative impact of the pandemic on land-based operations. The year-to-date turnover metric exceeds the $454.1 million registered in the full year of 2019 and represents more than 80% of the $574.3 million registered in full year 2020.



Source: Zacks from data in company reports

Consistent with earlier periods during the pandemic, the drivers of turnover growth shifted from land-based to web-based, primarily reflecting the impact of COVID-19 and the increased ease of web-based wagering. Web-based turnover advanced by 148% in 1H21 compared to 1H20 and comprised 97% of total turnover, up from 87% in 1H20.



Source: Zacks from data in company reports

ELYS believes that some land-based betting shops might be able to re-open as the 2021-2022 European soccer season gets underway. In turn, this would provide additional growth in the company's home market of Italy that could enhance 2H21 growth.

Overall, the company's results through 1H21 put ELYS on track to exceed its initial 2021 goals, according to management. Moreover, reflecting the expected growth in the North American market and the highly scalable architecture of the ELYS platform, ELYS expects to reach roughly $50 million in annual revenue within the next few years. Management is optimistic about adoption by gaming operators, including tribal operators, as more markets authorize gaming. In fact, last month ELYS showcased its U.S. retail sports betting platform at the National Indian Gaming Association (NIGA) trade show and is optimistic about its prospects.

In its European operations, ELYS processed a record $220.1 million in betting handle in 2Q21 and the above-noted $463.3 million in 1H21. Betting handle conversion to gross gaming revenue (GGR) reached $14.9 million and $32.3 million in these periods, contributing to total revenues of $11.7 million and $25.8 million, respectively. As noted, web-based turnover via the online channel recorded year-over-year growth of 144.7% and 147.6% during these respective periods, which offset the negative impact of land-based operations remaining closed as a result of COVID-related lockdowns.

ELYS continues investing in technology, licensing and personnel to support its expected opportunities. As a result, total expenses were up 110% year-over-year to $14.4 million. Nevertheless, management remains focus on cost containment efforts that do not impinge on potential growth prospects. The company reported net loss of ($2.7) million or ($0.13) per share compared to a net loss of ($2.5) million or ($0.20) per share in 2Q20. We have revised our 2021 forecast for year-to-date results. (Our 2022 forecast reflects minimal to no impact of the pandemic, which might change depending on cases.)

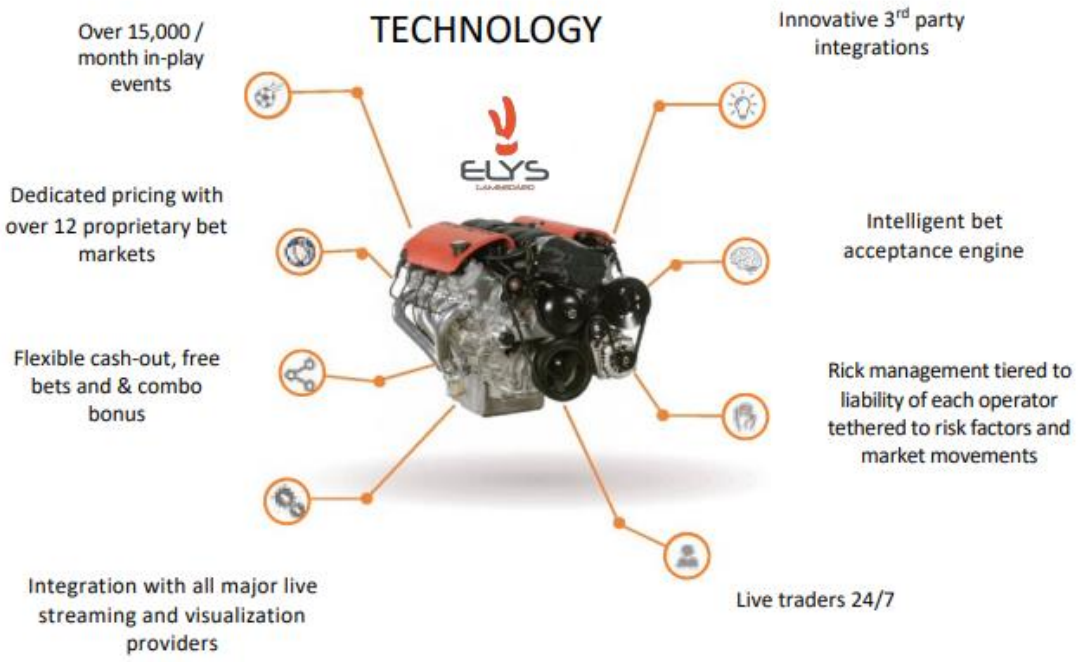
The company developed the ELYS gaming platform specifically for the North American market, rather than modifying the existing platform that has been in operations in its home market of Italy. It is early in the development of the U.S. and Canadian markets and ELYS believes it has early mover advantage in the market. With $19.2 million in cash & equivalents at the end of 2Q21 and no long-term debt, the company is well-positioned to advance its growth strategy, in our view.

ACQUISITION EXPECTED TO FACILITIATE OVERALL GROWTH

USB could provide a significant boost to client base and revenue, once fully integrated

The company completed the acquisition of Nevada-based Bookmakers Company US LLC (USB) earlier in 3Q21 for $12 million in cash and shares (50% / 50%). USB believes that in markets where sports-betting has been authorized, retail sports books increasingly are being incorporated as a standard feature in most casinos. USB's operations are complementary to ELYS's existing operations and management believes the acquisition will enhance its global growth strategy.

The USB team has extensive sportsbook experience. ELYS expects that adding the USB team to its existing team will expand ELYS's industry network and know-how, as well as expand its customer base and U.S. footprint in four states. The feedback that ELYS can get through the USB unit will enable the company to better adapt and innovate in order to introduce products and services to meet player needs. ELYS believes USB facilitates it goal to become the leading supplier to the U.S. B2B2C betting operators.



Source: https://ir.elysgame.com/company-information

The company expects to integrate the US ELYS Gameboard system and US Bookmaking within the next 6-12 months. This acquisition is also consistent with the company's global diversification efforts and expanding footprint in North America. Specifically, the acquisition gives ELYS an expanded U.S. operating footprint in four states: New Mexico, Colorado, Michigan and North Dakota, with two additional markets – Washington, D.C. and Iowa – in progress.

MARKET LAUNCHES

Washington, DC Will be first to go live

The company's first U.S. rollout is planned for Washington, D.C. and the company believes it is well-positioned to capture market share in the market. The Washington, D.C. metropolitan area authorized retail and online sports betting in 2020 and retail players appear to be enthusiastic, according to trade publications. Management believes gross revenue per capita is already among the highest in the U.S., with roughly 75% of the GRR generated at the retail level.

Elys is partnering with Grand Central Sportsbook for its entry into this market. Grand Central operates the Grand Central sports bar and Capo deli. The company also believes that the ability to operate in smaller venues such as a sports bar underscore the advantages of its platform to both scale up and operate economically in smaller locations, as well. Moreover, despite the size, the company believes these venues offer significant opportunities and can often operate along the lines of micro casinos. The company is optimistic that the ELYS platform can service large and small casino operators, as well as neighborhood venues such as restaurants and bars across the U.S. and Canada as markets open.

The company is ready to enter the Washington, D.C. market as soon as it receives regulatory approval. Moreover, ELYS believes that the model it has developed for this initial market can be replicated in many other locations in Washington DC and potentially other markets.

MARKET OPPORTUNITY

U.S. 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.

The company expects that the U.S. sports betting and online gaming market represents a sizable opportunity for the 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.

Canadian Market

Canada passed the Safe and Regulated Sports Betting Act (Bill C-218) on June 22, 2021. The bill enables provincial governments to authorize and manage single-event sports betting. PwC estimates that the Canadian market could reach C$1.5 billion to C$2.4 billion in the next two years. Other forecasts put the Canadian legal sports betting market could reach almost C$28-billion in five years.

VALUATION

In our view, 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.

ELYS shares trade below 2x forward revenue projections, despite the opportunities the company has in North America and in its home market, Italy, as the industry there consolidates, ELYS continues to hit its milestones regarding its growth objectives, such as attaining more than $0.5 billion in turnover in 2020. Moreover, we also believe the potential opening of the Canadian market, as well as the company's recent measures to enhance its growth prospects in North America, could accelerate Elys's prospects and boost valuation.

As the company continues to boost awareness of its opportunities and strategy and as the industry continues to expand, we would anticipate multiple expansion, if ELYS can execute its strategy successfully. We are raising our valuation on ELYS shares to $8.00 from $5.00 per share previously. At $8.00, the shares would trade at about 3x forward 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 16x 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.
- Getting all the approvals needed to open in the D.C. market might take longer than expected.
- 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.
- A high percentage of ELYS shares is held by insiders.

RECENT NEWS

- Elys reported 2Q21 results on August 23, 2021.
- Elys announced the acquisition of USB on July 19, 2021.
- Elys reported 4Q20 results on April 13, 2021.
- On January 14, 2021, the company announced that it had expanded its corporate communications team.
- ELYS became the first dual listing technology company from NASDAQ to the NEO exchange on December 31, 2020.
- 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 Game Technology Group

Elys Game Technology Income Statement & Projections ($)

	2018	2019	1Q20	2Q20	3Q20A	4Q20A	2020A	1Q21A	2Q21A	3Q21E	4Q21E	2021E
Revenue	34,575,097	35,583,131	10,170,174	4,810,269	9,701,796	12,584,128	37,266,367	14,157,328	11,689,949	10,866,012	12,531,784	49,245,073
Selling expenses	24,142,110	27,584,492	6,215,161	3,957,366	7,154,623	8,782,071	26,109,221	10,661,815	9,616,584	8,203,839	9,436,468	37,918,706
G&A expenses	10,588,162	10,994,554	2,820,961	2,883,427	3,156,505	4,928,498	13,789,391	4,145,210	4,754,944	4,020,424	4,315,197	17,235,775
Impairment	-	-	-	-	-	4,900,000	4,900,000	1	-	-	-	-
Total Costs and Expenses	34,730,272	38,579,046	9,036,122	6,840,793	10,311,128	18,610,569	44,798,612	14,807,026	14,371,528	12,224,263	13,751,665	55,154,481
Gain /(Loss) from Operations	(155,175)	(2,995,915)	1,134,052	(2,030,524)	(609,332)	(6,026,441)	(7,532,245)	(649,698)	(2,681,579)	(1,358,251)	(1,219,881)	(5,909,409)
Interest expense, net	(619,709)	(972,443)	(139,974)	(33,099)	37,273	(192,863)	(328,663)	(7,849)	(2,194)			
Amortization of debt discount	(1,995,128)	(4,154,922)	(450,229)	(286,845)	(109,623)	28,515	(818,182)	(12,833)	-			
Gain /(loss) marketable securities	(75,000)	(97,500)	130,000	592,500	(56,093)	(376,407)	290,000	195,000	(287,500)			
Other (Expenses) Income	318,956	(455,849)	11,798	(705,528)	(293,604)	346,386	(640,948)	254,414	87,810	-	-	-
Total Other Expenses	(2,370,881)	(5,680,714)	(448,405)	(432,972)	(422,047)	(194,369)	(1,497,793)	428,732	(201,884)	426,267	(961,314)	(308,199)
Pretax loss	(2,526,056)	(8,676,629)	685,647	(2,463,496)	(1,031,379)	(6,220,810)	(9,030,038)	(220,966)	(2,883,463)	(931,984)	(2,181,196)	(6,217,608)
Taxes	(1,102,701)	(598,176)	(528,038)	(62,059)	(181,902)	(134,645)	(906,644)	(388,614)	112,113	(18,640)	(125,357)	(420,498)
Net Loss	(3,628,757)	(9,274,805)	157,609	(2,525,555)	(1,213,281)	(6,355,455)	(9,936,682)	(609,580)	(2,771,350)	(950,624)	(2,306,553)	(6,638,106)
Per share data												
Loss per share	($0.38)	($0.91)	$0.01	($0.20)	($0.08)	($0.37)	($0.71)	($0.03)	($0.13)	($0.04)	($0.10)	($0.30)
Average shares outstanding	9,485,993	10,226,432	12,209,833	12,434,338	14,525,372	17,021,357	14,047,725	21,506,684	22,012,153	22,012,203	22,013,203	21,886,061

Source: Company reports & Zacks

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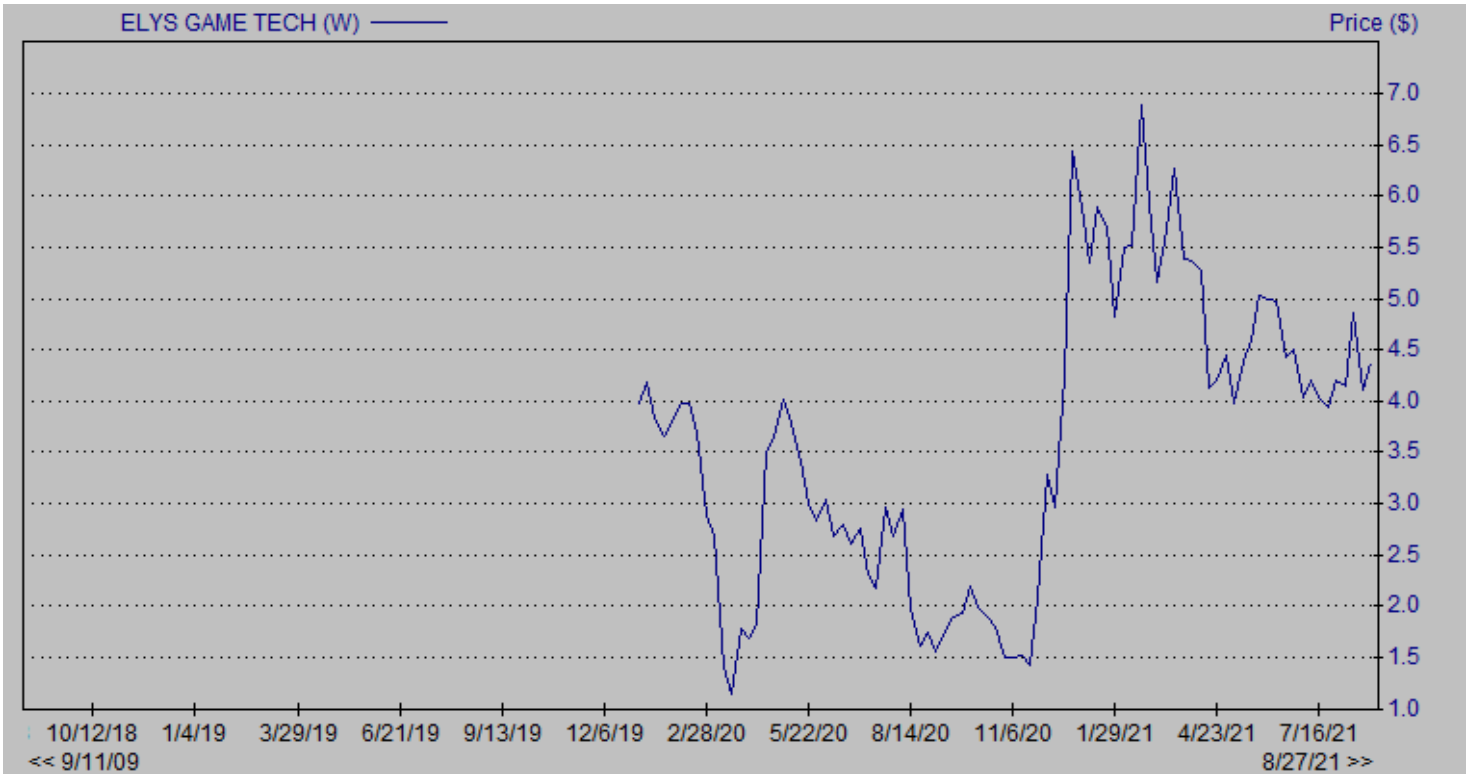
HISTORICAL STOCK PRICE



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