

Bodenholm Comment Short Selling of Evolution Gaming

Stockholm (HedgeNordic) - In a filing to the Swedish Financial Supervisory Authority, FI, Brummer-backed long/short equity hedge fund Bodenholm last week stated a major short position in Evolution Gaming, a Swedish provider of online gaming solutions. According to FI, the position was as big as 0,95 percent of outstanding shares on March 27.

Commenting on the position to Swedish news agency Direkt, Per Johansson, portfolio manager at Bodenholm (pictured right) says that an increased pressure on margins as a result of large future investments as well as more intense competition from companies like Playtech, were the two major reasons underlying the short bet. On Thursday, the market value of the stock dropped by 3 billion sek to 16.5 billion SEK, giving Bodenholm a well-timed start to its major short.

"During the third quarter, the company's margins were very high and they said in the accompanying report that they had reached a 'new level' in terms of profitability. A month later, insiders sold a large amount of shares at record high levels, says Per Johansson continuing:

"But then came the next report showing much lower margins combined with the message that there would be significant recurring investments in Georgia and Canada among other countries. The stock fell quite substantially on that piece of news but then recovered."

In a commentary to the closing financial statements for last year, Evolution's CEO Martin Carlesund on February 15 wrote about an "investment phase".

"At Bodenholm we discussed whether this meant something or not", says Johansson commenting on the insider transactions as opposed to the message from the company communicating higher levels of profitability. Johansson explains how he asked himself how the management could give such a positive view about the future margins of the company by the end of October, when they at the time most likely knew about coming margin pressures.

"They could have been much clearer about the fact that the high margin levels were not expected to continue. Already in the Q3-report they should have communicated that they were going into a phase of investments as they were under-invested."

The other argument for the short bet has to do with the fact that other live casino players are pushing forward, potentially threatening the strong market position of Evolution Gaming. According to Johansson, one of the major competitors to the company, Playtech, are building out its live casino outfits in Riga.

"This development will lead to a situation where Evolution Gaming needs to defend its market share going forward, after having built the business and grown at twice the pace of the market", says Johansson who believes that the Evolution Gaming stock is still overvalued (not accounting for the drop on Thursday).

Johansson does not want to say what he believes the fair value of the stock to be but hints that "generally speaking the fund does not take on short positions unless we see a downside of at least 30 percent".