



XST CAPITAL GROUP LLC
CAPITAL. M&A. STRATEGY

CONSIDERATIONS

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Considerations: Navigating Earnouts

Websters Dictionary: Consideration (kun-sid-uh-RAY-shun) - a careful weighing of the reasons for or against something.

A New Series from XST Capital Group

Not long after I launched XST Capital Group in May 2024, we began publishing our series of CEO / Founder interviews under “The Next” umbrella as we wanted to highlight the emerging leaders and businesses that we routinely engage with. These reports have become hugely popular with our readers, who include industry players and strategics, as well as venture capital, private equity, and institutional investors. We plan to continue publishing at least one of these reports monthly in addition to special edition reports such as “The Playbook” which recently featured thirty-one CEO’s discussing the latest sports betting industry trends.

I was recently out on a morning run, typically when I get my best ideas, when I had an epiphany - why not begin to leverage our expanding team of senior advisors including Kent Young, who has successfully exited two startups, as well as Jesse Wachtel, who has substantial early stage investing and operational management expertise, to share some of their rich insights. Periodically going forward, we will be issuing thematic reports leveraging their insights on pertinent industry topics, with some commentary from me, that are relevant to the digital gaming ecosystem.

Given the steady stream of M&A activity in the sector more recently and across the early stage gaming sector, earnouts have become a frequent topic of discussion with our clients. In fact, many of the deals we are working on where targets tend to be public players acquiring privately held businesses run by younger, sometimes unseasoned founders, we do a fair amount of coaching and advising on what to consider when being approached with various earnout structures. With that preamble, I tasked Kent with discussing this topic in detail, given his personal experience.

Gaming Industry Equity is Volatile; Keep that in Mind

Earnouts are very common in the sector and there have been some high profile deals more recently where earnouts are a substantial component of the value creation. Some notable deals in our eyes more recently include DraftKings (NASDAQ: DKNQ) / Simplebet and Gambling.com (NASDAQ: GAMB) / Odds Holdings where the performance of related earnouts will be worth following.

As a former bulge bracket equity analyst for the first 2/3 of my career I spent a substantial portion my day speaking with large institutional money managers across long only (ex: Wellington, Fidelity) and hedge fund (ex: SAC, Balyasny, Citadel) investors. The dirty little secret is that no matter the market cap of the gaming stock, most companies in the sector are “nice to have” not “must have” buy & hold stocks for these money managers. Why is this the case you might ask; because the gaming industry still faces some limitations on “sin” holdings from many long only money managers and also aren’t core index holdings. One of the

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few examples of sustained support for the group I ever felt was during the “go-go” days of Macau before the Chinese government put in restrictions to curb its growth.

While some of the “large cap” stocks in gaming like DraftKings and Flutter could become staples for money managers looking to invest in more substantial businesses with global brands and reach, many of the suitors dangling stock to privately owned businesses are likely going to have to more volatile inherent currencies. With that said, if you are the CEO / Founder or a major stakeholder and a sub \$10bn market cap company is offering a substantial piece of your earnout in equity, this is something you need to consider deeply; ultimately cash is king and while a “second bite” of the apple can be attractive, depending on your risk tolerance and other factors, taking more cash upfront vs. a potentially larger package may be the path to choose.

We hope you enjoy the read.

Sincerely,
Joel H. Simkins

My Personal Experiences with Earnouts: The Pros and Cons

Kent Young - Senior Advisor

Many Variables to Consider When Kicking Off Price Negotiations

In the mid-2000s, the company I had co-founded just two years earlier attracted a serious buyer. Although I had some M&A experience from my prior executive roles, this was essentially new territory, with plenty of potholes to navigate.

One thing I knew for certain was the importance of maximizing cash at close - cash in the bank minimizes risk.

The deal included two components: a cash payment upfront and an “earnout,” which added layers of complexity. One thing I knew for certain was the importance of maximizing cash at close - cash in the bank minimizes risk. Negotiations revolved around valuation, differing perspectives between buyer and seller, and weighing numerous variables: team expertise, IP, existing and future deals, content output, and both current and projected financials. Many of these were subjective and hotly debated.

There's Never a Perfect Time to Sell, But Cash is King

Despite the back and forth, my partner and I had agreed on a minimum cash figure and overall deal value. A seller's number depends on circumstances: the urgency to exit, the ability to wait for higher valuations, or simply the price one cannot refuse. Because we had upside and weren't desperate to sell, we negotiated from a position of strength.

We ultimately secured a meaningful cash component payable at close. But “cash at close” is rarely straightforward. Deductions can include debt repayment, working capital adjustments (payables vs. receivables), holdbacks for disputed items or IP risks, and funds withheld in escrow. Sellers must anticipate these adjustments - otherwise the net amount received may fall short of expectations.

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Taking Advantage of Industry Hype Cycles

With the cash piece settled, we turned to the earnout. Sometimes it's structured in stock, sometimes in cash. Either way, sellers must conduct due diligence on the buyer's financial strength and, if stock is involved, on its past and projected performance.

In gaming, M&A often coincides with "hype cycles" where valuations inflate - Class II, server-based, iGaming, sports betting, and, more recently, prediction markets. If an earnout is stock-based during such a cycle, the risk is obvious: a falling share price can erode the actual value received over time.

In Regulated Segments, Expect Added Complexity

My deal involved an earnout in cash over time, which provided certainty of value. Still, unique industry factors made the arrangement challenging. Chief among them: regulatory approvals. Deals can take two to three times longer than expected if the buyer isn't already licensed, as jurisdictional approvals may drag on for years. If earnout targets are time-bound, such delays can trigger renegotiations or missed payouts.

Another challenge is loss of control post-sale. Once folded into a larger buyer's operation, priorities may shift away from the seller's earnout goals. For example, if earnout payments depend on deploying a set number of games, competing priorities in QA, compliance, or corporate strategy may interfere. Team dynamics also matter: employees from nimble studios often struggle in bureaucratic organizations, and departures of key staff can jeopardize performance targets.

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The takeaway: hope for the best, but prepare for the worst when negotiating earnouts.

XST Capital Group Is Here to Help

I've gone through this process more than once - most recently selling my second business in 2022 - and have gained a strong appreciation for both the mechanics and the pitfalls of earnouts. My clear advice: appoint an experienced banker with deep sector expertise. In gaming especially, industry nuances matter. Having the right advisor can make all the difference.

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Precedent Transactions

Buyer	Target	Announced	Upfront	Earnout	Total Potential	Notes
Playtech	Quickspin	May 2016	€24m	Up to €26m	€50m	Earn-out capped, EBITDA-linked
Playtech	Eyecon	Feb 2017	£25m	Up to £25m	£50m	6× EBITDA through 2019
Evolution AB	Big Time Gaming	Apr 2021	~€220m	Up to ~€230m	~€450m	EBITDA-driven earn-out
Betsson AB	Inkabet (Peru)	Aug 2021	\$25m	Up to \$4m	\$29m	Revenue/EBIT targets + deferred payments
Gaming Innovation Group (GiG)	Sportnco	Dec 2021	€50.8m	Up to €23m	€73.8m	Performance 2022–2023
Gambling.com Group	BonusFinder (NDC Media)	Jan 2022	€12.5m	Up to €47.5m	€60m	Performance-based earn-out (cash + shares)
Entain	BetCity (Netherlands)	May 2022	€300m	Up to €550m	€850m	Performance & synergy earn-out
Evolution AB	Nolimit City	Jun 2022	€200m	Up to €140m	€340m	EBITDA-based earn-out
Betsson AB	betFIRST (Belgium)	Jun 2023	€117m	Up to €3m	€120m	Financial targets
Entain	Angstrom Sports	Jul 2023	£81m	Up to £122m	£203m	Performance-based earn-out
DraftKings	Simplebet	Aug 2024	\$70m	Up to \$125M	\$195m	Performance-based earn-out as part of purchase
Gambling.com Group	Odds Holdings	Dec 2024	\$80m	Up to \$80m	\$160m	Affiliate acquisition, performance-based earn-out
Light & Wonder	Grover Gaming's charitable assets	Feb 2025	\$850m	Up to \$200m	\$1.05B	Performance-based earn-out over 4 years
DoubleDown Interactive	WHOW Games	Jul 2025	€55m	Up to €10m	€65m	Annual performance-based earn-out
Gambling.com Group	Spotlight Vegas	Aug 2025	\$8m	Up to \$22m	\$30m	Performance benchmarks through 2027

Source: Business Wire, Cision, Entain Group Press Release, Global Newswire, iGB, Investgate, Reviewed Casinos

Kent Young - Senior Advisor

Throughout his impressive career, Kent has served in senior executive roles at major gaming companies, including Aristocrat Technologies, Aruze Gaming America, and Bragg Gaming Group, where he currently serves as a board member, chairs the Compensation Committee, and participates on the Compliance Committee (NASDAQ: BRAG). Kent's influential role in Aristocrat's successful North American expansion, strategic product innovation, and M&A efforts established him as a pivotal industry figure. He subsequently played a key role in Aruze Gaming's market entry and growth in North America.

As a seasoned entrepreneur, Kent founded and successfully exited two pioneering gaming companies, True Blue Gaming and Spin Games, recognized for groundbreaking advancements in gaming technology and regulatory-compliant solutions. Notably, Kent was instrumental in popularizing penny slots, developing rapid-hit multi-level progressive jackpots, and advancing Remote Game Server (RGS) technology for Class III and Class II gaming.



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