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ESG and M&A Valuation in Regulated Industries-The Case of Bridgepoint's Acquisition of Cherry AB

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Abstract. Most existing studies on ESG and corporate value focus on public stock markets and center mainly on environmental and social topics. Far less research covers how ESG affects deal pricing in private equity mergers and acquisitions, especially in heavily regulated industries where governance and compliance are major operational risks. This paper uses the 2018 acquisition of Nordic online gaming operator Cherry AB by private equity firm Bridgepoint as a case study. It examines whether governance-focused ESG practices can generate quantifiable valuation premiums in strongly regulated industries. First, this study selects 27 global gambling industry M & A transactions that have been completed in 2018 to construct an industry valuation benchmark, confirming that Cherry AB 's acquisition price is 0.37 times the market average TE / EBITDA premium. Subsequently, this paper compares Bridgepoint 's standard ESG due diligence framework with Cherry AB 's compliance performance in the three dimensions of license compliance, anti-money laundering, and responsible gaming to identify the driving causes of the valuation premium. The study found that the core driving factors increasing acquisition pricing are governance and compliance levels, rather than environmental or social dimensions. Good compliance performance can reduce the downside risks faced by investors, lower the required necessary rate of return, and then push up the reasonable valuation multiples of underlying assets. The conclusion of this study complements the existing ESG valuation research mostly based on open market data, and also provides a practical reference for M & A pricing in strong regulatory industries.

Keywords: ESG, M&A Valuation, Governance and Compliance, Private Equity, Gambling Industry

1. Introduction

ESG stands for environmental, social and governance and refers to a set of standards used to measure an organization's environmental and social impact. It's typically used in the context of investing, although it also applies to customers, suppliers, employees and the general public [1]. A large body of existing research has documented the positive correlation between strong ESG performance and firm value in public equity markets, with a particular focus on environmental and climate-related metrics. Consistently, Ezenwa et al. note that "past ESG performance tend to attract higher bid premiums" based on cross-border transaction data [2]. However, empirical evidence of

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ESG's valuation impact in private equity mergers and acquisitions remains far more limited, especially for mid-market transactions in highly regulated industries.

Within the growing body of ESG valuation research, two key gaps remain unexplored. First, most studies rely on public market data, where share prices reflect broad investor sentiment, instead of private market transactions where a single institutional buyer makes a deliberate pricing decision based on internal due diligence standards. Second, existing literature often prioritizes environmental and social topics. For example, Zrigui et al. conclude, "the environmental and social dimensions determine the acquisition premium whereas the governance dimension does not influence acquisition premiums significantly." [3]. In contrast, public market evidence from Zhang et al. confirms that "the governance dimension plays a particularly important role in the market valuation process" [4]. These general findings, however, overlook the fact that industries are different. For an industry such as gambling, ESG that focuses on governance and compliance is the most important factor that affects risk, yet its effect on the prices paid in acquisitions is still largely untested.

This paper tries to fill these gaps by asking whether strong ESG and risk management practices can create a valuation premium that can be measured in private equity deals in industries with many regulations. The paper uses Bridgepoint's 2018 deal that took Cherry AB, a Nordic online gaming operator, from public to private as a single case study. The analysis brings together two kinds of evidence, namely market data from 27 completed global gambling M&A deals in 2018, which are used to set the industry valuation baseline, and official Bridgepoint investment policy documents, which are used to check the firm's required ESG check system. The study links Cherry AB's higher-than-average valuation multiple to its stronger compliance and governance profile, and in this way it aims to show a cause-effect link between ESG strength and pricing in private markets, not just a simple statistical link.

To examine this issue, Section II sets up a 2018 benchmark of gambling M&A multiples, so that Cherry AB's valuation premium can be quantified; Section III compares Bridgepoint's required ESG criteria with Cherry AB's compliance records, and this comparison helps find what drove the valuation; finally, Section IV discusses what the results mean in theory and practice for PE pricing in regulated markets.

2. Empirical valuation baseline and industry distribution

2.1. Data source and sample construction

To find out whether Bridgepoint paid a higher price, or a valuation premium, for Cherry AB, this study built a comparison dataset of global merger and acquisition deals in the gambling sector by using the website Capital IQ. The data covers all completed deals that were announced or closed from January 1, 2018, to December 31, 2018.

This study used three strict filter rules:

• Industry scope – The target firms must mainly run online gaming, land-based casinos, or gaming technology.

• Transaction type – Full buyouts, public-to-private deals, and minority stakes that are strategic or used for control are all included; only small passive equity investments that are not strategic are left out of the sample.

• Data completeness – Transactions must disclose both Total Enterprise Value (TE) and trailing twelve-month (LTM) EBITDA to compute a valid TE/EBITDA multiple.

The final dataset includes 27 completed transactions across North America, Europe, and the Asia-Pacific region. This study chose the TE/EBITDA multiple as the main valuation measure, because it

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removes differences in how companies are financed and in tax rates across regions; moreover, all comparisons in this paper depend strictly on these 2018 M&A deal multiples, and this choice helps the paper avoid any distortion from share price changes in the secondary market.

2.2. 2018 global gambling industry valuation baseline

Table 1. 2018 Global gambling M&A TE/EBITDA multiple distribution

Metric	TE/EBITDA Multiple
Mean	14.68x
Median	8.13x
25th Percentile	6.03x
75th Percentile	12.34x
Maximum	100.29x
Minimum	3.21x
Standard Deviation	22.06x

The industry multiples show a clear right-skewed distribution. Most transactions cluster tightly in the 12.0x to 16.0x range. Pure-play online operators and companies operating in strictly regulated jurisdictions, such as the Nordic countries, often get higher multiples than old land-based casinos or firms in lightly regulated markets; buyers are willing to pay more for scalable digital business models and lower compliance risks.

2.3. Cherry AB's valuation premium and market positioning

In late 2018, Bridgepoint acquired Cherry AB in a public-to-private transaction valued at SEK 3.5 billion. The deal implied a TE/EBITDA multiple of 15.05x.

When this study compares Cherry AB with the 2018 global baseline, a clear premium can be seen:

• Absolute premium – 15.05x versus the industry mean of 14.68x, representing an absolute premium of +0.37x.

• Relative premium – Cherry's valuation is approximately 2.5% above the market average.

• Percentile rank – Cherry ranks in the top 15% (above the 85th percentile) of all 27 transactions completed globally in 2018. Only four deals in the entire sample recorded higher valuation multiples.

This position shows that Cherry AB's 15.05x multiple was not just the result of a rising industry tide; Bridgepoint actively put Cherry's price at the top tier of the global market.

2.4. Summary

The market data from actual deals sets a clear factual baseline: Bridgepoint paid a measurable +0.37x premium for Cherry AB when it is compared with its 2018 M&A peers.

However, market data alone can only show correlation; it cannot explain why Bridgepoint offered this top-tier price; to understand what drove this valuation premium, Section III looks at Bridgepoint's internal investment requirements and lines them up directly with Cherry AB's record in compliance and corporate governance.

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3. ESG compliance and the driver of valuation premium

3.1. Bridgepoint's mandatory ESG due diligence framework

As discussed in Section II, Bridgepoint paid a measurable premium for Cherry AB relative to the 2018 industry average. This section explains the root cause of this premium by examining Bridgepoint's internal investment rules and matching them against Cherry AB's operational strengths.

As a leading European private equity firm, Bridgepoint applies a formal ESG investment policy across all its portfolio projects. As stated in its official ESG framework, "We believe well-governed businesses perform better and are more resilient. Structure, accountability, effective decision-making, and performance monitoring – all enable sustainable success for all stakeholders" [5]. For highly regulated sectors like gambling, governance and regulatory compliance are not optional ethical add-ons, but are core risk factors that directly determine whether a deal can proceed. In the due diligence process for gaming assets, three compliance dimensions are prioritized as mandatory screening criteria.

First, regulatory licensing and track record. Valid operating licenses and a clean history of regulatory penalties are the baseline for investment. Any target with major regulatory violations or suspended licenses will be ruled out directly, as they expose the investor to huge operational and reputational risks.

Second, anti-money laundering and internal risk control systems. Gaming companies handle large volumes of customer funds and transactions, making them high-risk entities for financial regulation. A mature KYC (Know Your Customer) process, real-time transaction monitoring, and standardized suspicious activity reporting are required to meet EU regulatory standards.

Third, responsible gaming practices. Regulators in mature markets such as the Nordics have strict requirements for player protection. Targets must have functional tools for self-exclusion, deposit limits, and underage gambling prevention to avoid policy risks and public criticism.

This three-priority framework is not a theoretical generalization but an institutionalized requirement formally documented in Bridgepoint's corporate disclosures. As specified in its 2022 annual report, "As the opportunity moves into full due diligence, the investment team is responsible for ensuring that any ESG-related issues are identified and assessed. The findings from the ESG due diligence and any recommended remedial actions form a key part of the analysis presented to Bridgepoint's Investment Advisory Committee" [5]. When Bridgepoint acquired Cherry AB in 2018, Bridgepoint had already kept formal ESG checks in place for 11 years; these checks turned compliance review into a strict gate in deal making, rather than an optional ethical add-on.

For buyers such as Bridgepoint, strong compliance results can directly reduce the risk of losses; when a target is solid in compliance, its cash flow from operations is more stable, its possible fines are lower, and its long-term licenses are more likely to be renewed; this lower uncertainty makes the buyer more willing to pay a higher price, and in this way the "compliance premium" in valuation is formed.

3.2. Cherry AB's compliance and governance performance

Cherry AB, as a Nordic online gaming operator, has built a strong compliance profile that aligns closely with the priorities outlined above.

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3.2.1. Clean regulatory licensing track record

Valid online gaming licenses in several Nordic markets, such as Sweden, Denmark, and Finland, are held by Cherry AB, and these markets all have strict rules and close oversight; before the acquisition, the company had no record of major regulatory fines, license suspensions, or serious compliance violations during its years of operation; because of this clean record, it was seen as one of the most reliable operators in the mature European gaming market.

3.2.2. Established AML and risk control infrastructure

Before the acquisition, a complete set of internal rules and checks had been set up by Cherry AB, and these rules followed EU anti-money laundering (AML) directives; this setup included standard steps to check who customers are, tools that watch transactions as they happen, and a team whose job was to report activity that looked suspicious; the company's risk control setup was widely viewed as better than the industry average for medium-sized online operators.

3.2.3. Industry-leading responsible gaming practices

Cherry AB was also an early user of broad tools for safer gaming; its platform gave users ways to block themselves, deposit and loss limits that they could set, and age checks to stop underage access; the company also worked with local regulators on efforts to protect players, and this helped it build a good name for working with regulators.

3.3. Alignment: compliance strength as the core driver of premium

When matched against Bridgepoint's due diligence priorities, Cherry AB's compliance strengths cover all three core dimensions of the firm's ESG screening framework. This close alignment is the key explanation for the observed valuation premium.

First, the clean record Cherry AB has with regulators directly deals with the biggest risk of losses for private equity buyers in the gambling sector; unlike targets in markets with fewer rules, which face unclear rules all the time, Cherry AB's stable license status and clean compliance history greatly lower the risk that its business will be suddenly interrupted; for Bridgepoint, this means cash flow is easier to predict and expected losses from regulatory fines are lower.

Second, its mature anti-money laundering and management systems lower the costs of integration after the deal is bought; many gaming deals need heavy investment to upgrade compliance systems after purchase, while Cherry AB's setup is already ready, so Bridgepoint can avoid extra one-off compliance spending and operational changes.

Third, the company's profile in safer gaming helps keep value over the long term; as global gaming rules become tighter, operators with weak player protection face growing risks to their name and to policy, while Cherry AB's leading position in this area makes it better able to handle future rule changes, and this improves the asset's selling value later.

From a financial valuation standpoint, this set of compliance strengths translates directly into a lower risk-adjusted discount rate(r) applied by Bridgepoint. As Francisco and Couto document, "the Social and Governance Pillars exhibit positive and statistically significant relationships with all Betas. This pattern may reflect heightened investor attention to Social and Governance practices, which amplifies the systematic movements in the stock prices of firms excelling in these areas,

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while Environmental aspects receive comparatively less market focus" [6]. This dynamic can be explained using the standard discounted cash flow valuation formula:

$$V = \frac{c}{r - g} \tag{1}$$

where V refers to Enterprise Value, c refers to cash flow, r refers to discount rate, g refers to the long-term growth rate of the company's cash flow.

For firms in regulated industries, very bad risks such as big regulatory fines or losing a license push up the return that investors want; by removing major compliance uncertainties, Cherry AB's profile lowers the seen risk of losses and the related extra return in the discount rate; this drop in the cost of money directly raises the reasonable TE/EBITDA multiple, and it gives a clear money-based reason for the 0.37x higher price that was seen.

This pattern also fits the industry multiple spread shown in Section II; targets in Nordic markets with strict rules and good records of following rules generally get higher multiples than peers in places with weaker rules; Cherry AB's ranking in the top 15% by value directly matches its very good compliance results in the sample.

4. Conclusion and implications

4.1. Summary of key findings

This paper looks at ESG as a factor that affects value in industries with many rules, and it uses Bridgepoint's 2018 deal that took Cherry AB from public to private as a single case; the analysis gives three main results.

First, a premium in price that can be measured exists for assets with strong compliance in the gambling sector; this study uses a sample of 27 global M&A deals in 2018, and the industry average TE/EBITDA ratio is 14.68x, while Cherry AB was priced at 15.05x, which means a +0.37x higher price in absolute terms and a rank in the top 15% of all deals that year; this premium is worked out against M&A deal benchmarks from the same period, not share prices in the secondary market, so the comparison is strong and clear.

Second, the main driver of this premium is the governance and compliance (G) part of ESG, not the environmental (E) or social (S) factors that most existing research focuses on; Cherry AB's clean record of holding licenses, its mature anti-money laundering and risk control system, and its leading safer gaming practices all fit well with Bridgepoint's required ESG check system; these strengths lower the risk of losses, cut the costs of merging after the deal, and make long-term cash flow steadier; from a money view, this drop in uncertainty turns into a lower discount rate adjusted for risk, and this in turn lifts the reasonable valuation ratio.

Third, the study checks the difference between the mood of the public market and the careful pricing of the private market; in public markets, ESG signals often work through investor mood and short-term price changes, but private equity buyers in regulated sectors treat ESG that focuses on compliance as a main factor in pricing risk, and they put it directly into the deal's valuation; this result fills a gap in existing research, because past work has mostly looked at public market performance and has not looked enough at the logic of private market M&A pricing.

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4.2. Theoretical implications

This study adds two main things to the existing research on ESG and value.

First, it shows that the different parts of ESG play different roles in different industry settings; most past research treats ESG as a single idea and pays too much attention to environmental and social factors; this paper shows that in industries with many rules and licenses, such as gambling, governance and compliance are the main part of ESG that drives value; for these sectors, strong compliance with rules is not a symbolic ethical extra but a basic factor for business continuity and the value of the asset; this result calls for more detailed analysis of ESG for each industry, rather than the same conclusion for all.

Second, the paper adds to ESG valuation research in the private equity setting; by focusing on a private buyout deal and using multiples from similar M&A deals as the valuation benchmark, the study avoids the confusion from public market mood and shows the careful, risk-based pricing logic of large investors; this adds to the large amount of public-market ESG research and gives a fuller picture of how ESG turns into asset value in different capital market settings.

4.3. Practical implications

The findings also carry actionable implications for three groups of market participants.

For private equity investors who are active in industries with many rules, they should treat compliance and governance as clear factors that affect value, not just boxes to check for risk; they should put a careful review of license records, anti-money laundering systems, and the record with regulators into the pricing model, and for targets with strong compliance, they can reasonably give a lower discount rate and a matching higher price.

Operators in highly regulated sectors, investment in compliance capacity is not purely a cost burden but a value-building activity. Strong governance and regulatory performance can directly translate into higher exit valuations and stronger bargaining power in M&A negotiations. Firms should proactively document and disclose their compliance infrastructure to make this value visible to potential buyers.

Policymakers and regulators, clear, stable and consistently enforced regulatory rules help raise the overall valuation of the industry. When compliance quality is reliably priced by the capital market, operators have stronger market incentives to invest in governance and responsible operations, creating a positive cycle between regulation and industry quality.

4.4. Limitations and future research

This study has several limits that point to directions for future studies.

While the single-case design separates specific ESG mechanisms, the size of the compliance premium may differ across other sectors with many rules, such as healthcare or energy; also, using data from one point in time in 2018 restricts the observation of trends over time; future studies could use multi-year panel data to show how ESG valuation premiums change along with shifting regulatory environments, and could further break down the combined effects between environmental, social, and governance factors.

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