REDEYE

GAMING GUIDE 2020



REDEYE

Redeye is the next generation equity research and investment banking company, specialized in life science and technology. We are the leading providers of corporate broking and corporate finance in these sectors. Our clients are innovative growth companies in the nordics and we use a unique rating model built on a value based investment philosophy.

Redeye was founded 1999 in Stockholm and is regulated by the swedish financial authority (finansinspektionen).

THE GAMING TEAM



Johan Ekström
Head of Digital Entertainment

Johan has a MSc in finance from Stockholm School of Economic and has studied e-commerce and marketing at MBA Haas School of Business, University of California, Berkeley. Johan has worked as analyst and portfolio manager at Swedbank Robur, equity PM at Alfa Bank and Gazprombank in Moscow and as hedge fund PM at EME Partners. At Redeye, Johan works in the Corporate Advisory team with special focus on Digital Entertainment and Tech.



Tomas Otterbeck
Senior Analyst

Tomas Otterbeck gained a Master's degree in Business and Economics at Stockholm University. He also studied Computing and Systems Science at the KTH Royal Institute of Technology. Tomas was previously responsible for Redeye's website for six years, during which time he developed its blog and community and was editor of its digital stock exchange journal, Trends. Tomas also worked as a Business Intelligence consultant for over two years. Today, Tomas works as an analyst at Redeye and covers software companies with a focus on Gaming.



Kristoffer Lindström
Senior Analyst

Kristoffer Lindström has both a BSc and an MSc in Finance. He has previously worked as a financial advisor, stockbroker and equity analyst at Swedbank. Kristoffer started to work for Redeye in early 2014, and today works as an equity analyst covering companies in the tech sector with a focus on the Gaming and Gambling industry.



Jonas Amnesten
Analyst

Jonas Amnesten is an equity analyst within Redeye's technology team, with focus on the online gambling industry. He holds a Master's degree in Finance from Stockholm University, School of Business. He has more than 6 years' experience from the online gambling industry, working in both Sweden and Malta as Business Controller within the Cherry Group.

GAMING EVENT SCHEDULE 2020

12:15	Redeye Intro
12:30	Embracer Group
12:45	EG7
13:00	Remedy Entertainment
13:15	Nitro Games
13:30	Rovio Entertainment
13:45	MTG
14:00	Atari
14:15	Flexion
14:30	MAG Interactive
14:45	M.O.B.A. Network
15:00	Thunderful Group
15:15	Azerion
15:30	Esportal
15:45	Adverty
16:00	G5 Entertainment
16:15	Prey Studios/Funrock

Embracer Group

CEO and Founder
Lars Wingefors

Lars Wingefors is the founder and CEO of Embracer Group. Lars Wingefors started his first company at the age of thirteen. He has a broad and long experience in entrepreneurship and business management.

Embracer Group is the parent company of businesses developing and publishing PC and console games for the global games market. The Group has an extensive catalogue of over 160 owned franchises, such as Saints Row, Goat Simulator, Dead Island, Darksiders, Metro, MX vs ATV, Kingdoms of Amalur, TimeSplitters, Satisfactory, Wreckfest and World War Z amongst many others. With its head office based in Karlstad, Sweden, Embracer Group has a global presence through its five operative groups: THQ Nordic GmbH, Koch Media GmbH/Deep Silver, Coffee Stain AB, Amplifier Game Invest and Saber Interactive. The Group has 31 internal game development studios and is engaging more than 3,500 employees and contracted employers in more than 40 countries.

EG7

CEO and Founder
Robin Flodin

Robin Flodin Robin has been making games since he was 11 years old when he founded his first gaming startup at university. Today Robin runs EG7, which he co-founded, with around 200 employees globally making and marketing video games.

EG7 is a family of companies within the gaming industry that develops, markets, publishes and distributes PC, console and mobile games to the global gaming market. The company employs 100+ game developers and develops its ownd original IP:s, as well as act as consultants to other publishers around the world through its game development divisions Toadman Studios and Antimatter Games. In addition, the group's marketing agency Petrol has contributed to the release of 1,500+ titles, of which many are world famous brands such as Call of Duty, Destiny, Dark Souls and Rage. The group's publishing and distribution company Sold Out holds expertise in both physical and digital publishing and has previously worked with Team 17, Rebellion and Frontier Developments. The group is headquartered in Stockholm with 200 employees in 8 offices worldwide.

Remedy Entertainment

CEO Tero Virtala

Tero Virtala holds a master's degree in engineering and has acted as the Chief Executive Officer since August 2016. He has extensive and comprehensive experience in the gaming industry and management of gaming companies. Prior to this, Tero was CEO of RedLynx which was acquired by the international gaming giant Ubisoft in 2011. During 2011–2015, Tero participated in Ubisoft's international development projects as Managing Director of RedLynx.

Remedy Entertainment is a globally successful game company known for story-driven and visually stunning action games such as Control, Alan Wake, Max Payne and Quantum Break. Remedy works with renowned partners such as Microsoft, Rockstar Games, Smilegate and 505 Games. Remedy also develops its own Northlight game engine and game development tools. Founded and based in 1995, Finland, the company employs over 250 game industry professionals from 27 different countries. Remedy is listed on Nasdaq First North Growth Market Finland.

Nitro Games

CEO Jussi Tähtinen

Jussi Tähtinen is Managing Director of Nitro Games since September 2008. He started as a designer in Nitro FX in 2004, and before becoming the Managing Director for the spin-off Nitro Games, he worked in various roles within design and production. During his time at Nitro Games, Jussi has built up a close-knit team of gaming professionals and been involved in over 25 different game launches.

Nitro Games is a free-to-play mobile game developer and publisher with a decade of experience in developing games for the mid-core user segment, mostly focusing on the genre of strategy games. The Company focuses on producing games with high production value and high revenue potential for smartphones and tablets. With Nitro Games' powerful NG Platform and NG MVP-process, the Company is able to do market validation with new game prototypes after only a week of development. Historically, Nitro Games has developed games such as East India Company, Commander: Conquest of the Americas, Pirates of Black Cove and Raids of Glory.

Rovio Entertainment

IR Director
Veli-Pekka Puolakanaho

Currently, **Veli-Pekka Puolakanaho** holds the position as IR Director at Rovio. Prior to this Veli-Pekka worked as an analyst at SEB where he focused on Finnish small cap IT and Game companies. Before this, he worked for Aktia Asset Management where he was involved in researching Nordic Micro and Small Cap. Veli-Pekka graduated from Oulu University in 2011 majoring in Economics having minors in Finance and Statistics.

Rovio Entertainment Corporation is a global games-first entertainment company that creates, develops, and publishes mobile games, as well as licenses the Angry Birds brand for consumer products, movies, animations and other entertainment. Rovio is best known for the global Angry Birds brand, which started as a popular mobile game in 2009 and has since evolved from games to various entertainment and consumer products through brand licensing. Rovio's operations are divided into two business models: Games and Brand licencing. Rovio is headquartered in Espoo, Finland and Rovio is listed on the main list of NASDAQ Helsinki under the trading code ROVIO.

MTG

CFO Maria Redin and
EVP Lars Torstensson

Maria Redin was appointed as Chief Financial Officer of MTG in December 2015. She has also held a number of senior positions at MTG, including Head of Group Finance and Group Controller. Maria has been a Member of the Board of Directors at NetEnt since 2012. She holds a Master's degree in International Business from the University of Gothenburg.

Prior to joining MTG, Lars Torstensson served as Chief Communications Officer at Swedish listed consulting company Sweco AB and has held communications, investor relations, strategy and business development positions at Gelato AS and Tele2 Group. He previously worked at Swedbank Robur and Handelsbanken Asset Management. Lars holds a Master of Science in Business Administration from Jönköping International Business School.

MTG (Modern Times Group) is a strategic operational and investment holding company in esports and gaming entertainment. MTG was formed out of the media holdings of investment company Kinnevik, which in 1997 was distributed to the company stockholders. Born is Sweden, the shares are listed on Nasdaq Stockholm. Today, MTG is managing a unique portfolio including esports businesses ESL and DreamHack, gaming companies InnoGames and Kongregate as well as digital network company Zoomin.TV.

Atari

CEO Frederic Chesnais

Frédéric Chesnaisis is a graduate of Paris Institute of Political Studies and holds degrees in Finance and Law. He started his career as a financial consultant and practised as a lawyer focused on merger and acquisitions. He then worked for Lazard from 1995 to 2000. From 2001 to 2007, he was part of the management team of the Atari Group, the videogame publisher, first as Deputy COO and Chief Financial Officer of the Group, and then as Chief Executive Officer of Atari Interactive. In 2007, he left Atari to create his own videogame production company. In 2013, he became a significant shareholder of the Atari Group through the purchase of Atari securities held by BlueBay.

Atari is a globally recognized brand that transcends generations and audiences and for its multi-platform, interactive entertainment and licensed products. Atari own and/or manage more than 200 games and franchises including world-renowned brands like: Asteroids®, Centipede®, Missile Command® and hold the license for RollerCoaster Tycoon®. Atari Games is the DNA of the Atari Group and this also includes Atari Casino, multimedia activities with Atari Studios and Licensing.

Flexion

CFO Niklas Koresaar

Niklas Koresaar has 20 years within banking, fund management and start-ups in London and Dubai. Started within the shipping & offshore space generating, structuring, documenting and closing real asset investments on both project and corporate level at banks and the world leading fund Tufton Oceanic. Niklas left the space in 2010 to work with start ups. He joined Flexion in 2014 to build up the finance team.

Flexion solves technological and commercial fragmentation. Unique technology makes games compatible with any distribution channel. Integrations and commercial relationships with channels create an aggregated user base to which games can be profitably distributed. Flexion's service management sees Flexion actively working with a portfolio of games meaning developers can reach new channels without additional work. For channels (i.e. stores) Flexion is a content provider.

MAG Interactive

CEO Daniel Hasselberg

Daniel Hasselberg is the Chief Executive Officer of MAG Interactive since 2013. Daniel Hasselberg is also a member of the board of directors of MAG Games Limited, MAG Interactive, Mobile Access Group Sweden AB and NMO Invest AB. Daniel Hasselberg holds an M.Sc. in Engineering Physics from Uppsala University.

MAG Interactive is one of the leading independent mobile gaming companies in Europe. More than 100 million players enjoy spending time in Ruzzle, WordBrain and Potion Pop. The company was founded in 2010 and is headquartered in Stockholm and has a studio in Brighton, UK. The Company develops and publishes free-to-play games for mobile devices, in which the players make in-app purchases of virtual items or gameplay benefits. The US, together with the UK and Germany, constitutes the most important geographical markets for the company.

M.O.B.A. Network

CEO Björn Mannerqvist

Björn Mannerqvist has worked with digital marketing and SEO all over the world for 20 years. He has a broad experience of digital solutions and rapidly growing companies. He is the former CEO of Future Gaming Group International AB and the former Director of Operations at Ayima Nordic AB. Currently he is a board member of several Swedish listed companies including Tourn International AB and Orgo Tech AB.

MOBA Network owns and operates several of the world's largest e-sport communities. The company offers communities to core e-sport fans to craft gaming strategies and sharing ideas with other passionate players. MOBA operates a total of 8 global e-sport communities on its own platform.

Thunderful Group

CEO and Co-Founder
Brjann Sigurgeirsson

Brjann Sigurgeirsson created his first game in the early eighties, worked with gamification in Japan in the nineties and founded the acclaimed game studio Image & Form in 1997. Now runs and owns Thunderful Group AB together with business partners Klaus Lyngeled and Bergsala Holding.

Thunderful Group AB is a pan-Nordic gaming group that develops and publishes PC and console games for the global games market, as well as distributes games, gaming accessories and toys for the Nordic market. The Group, in its current shape, was founded in 2019 following a restructuring of the Thunderful and Bergsala groups, each with their own long history, and engages more than 170 employees. The Group has a strong Nordic market presence with a unique market legacy through its subsidiary Bergsala and its 40-year-old Nordic distribution agreement with Nintendo.

Azerion

Vice President Content,
Jur Van Teunenbroek

Jur Van Teunenbroek has been active in the gaming industry for over 19 years prior to joining Azerion as Vice President of Content. He is the Co-Founder of I Sioux as well as worldwide Yoda Games. He has also been a producer of many games recently including Stratego and Football Mafia.

Esportal

CEO Marcus Huber

Marcus Huber holds a MSc in Economics & Business and is the CEO of Esportal since December 2019. Previously Marcus has a background from two of Sweden's most successful unicorn companies, Klarna and Evolution Gaming. Working at Klarna between 2010-2015 in different sales executive roles and as Director of International Sales before joining Evolution Gaming as Director of Sales in 2015.

Esportal is a web-based competitive platform for the major e-sport titles, currently focusing on CS:GO. We aim to make gaming in a matchmaking and tournament environment a more engaging experience, removing disruptive influences such as disconnects, cheaters and trolls. E-sportal is the place where you can play great matches with the right type of opponents and teammates.

Adverty

CEO Niklas Bakos

Niklas Bakos started shaping his vision around seamless advertising in late 2015 and founded Adverty shortly after. Having spent almost two decades in mobile gaming and ad tech, his experience come from various startups and leading players in the field such as Glu Mobile, Namco Bandai and StartApp. Niklas has a masters degree in Media Technology from the University of Linköping.

Adverty is a leading immersive in-game platform that delivers seamless advertising to connect brands and people through its revolutionary display advertising technology built for games. The platform offers true in-game ad inventory at scale and allows content creators to monetise the complete experience with unobtrusive, easy-to-integrate, immersive ads. Founded in 2016, Adverty has offices in Stockholm, London and Lviv and works with advertisers, agencies and developers to unlock audiences and gaming revenue streams.

G5 Entertainment

CEO and Co-Founder Vlad Suglobov

Vlad Suglobov is a gaming industry professional with more than 24 years of experience. In 2001, Vlad and his colleagues co-founded G5 to develop PC and mobile games. Vlad has been the company's CEO since inception, and he continued to write game engine code until 2003, after which he began focusing entirely on the business side. Today, Vlad continues to be deeply involved in the company's strategy, marketing, and product development.

G5 Entertainment Group develops and publishes high quality free-to-play games for both smartphones and tablets that are family-friendly, easy to learn, and targeted at the widest audience of both experienced and novice players. The group distributes their games through the Apple, Google, Amazon, and Windows application stores. The company's portfolio includes popular games like Hidden City®, Mahjong Journey®, The Secret Society®, Homicide Squad®, and Pirates & Pearls®. Through its head entity G5 Entertainment AB (Publ), G5 Entertainment Group is publicly listed on Nasdaq Stockholm's main market mid cap segment under trade symbol G5EN.ST. For the 6th year in a row, G5 Entertainment is ranked in Deloitte's Top 500 Fastest Growing Tech Companies in Europe, the Middle East and Africa, and in Deloitte's Top 50 Fastest Growing Tech Companies of Sweden.

Prey Studios/Funrock,

CEO David Wallinder

David Wallinder is the Founder of FunRock, and has been active in the games industry since his early teens. Wide experience from building and managing companies in the ICT and gaming space. Leading FunRock's 25 employees with the rest of the management team.

FunRock is a mobile games developer and publishing group headquartered in Stockholm, Sweden. Founded through the merger of FunRock and Prey Studios during Q1 2020. The group focuses on developing, running and publishing high-quality "Games-as-a-Service" games with long life-time. The company has five games in the portfolio, with MMA Manager currently being the fastest growing title.



MSEK Company	Country listing	EV	Business type	Main platform	Main revenue model	Game portfolio	Revenue div.*
Listed Redeye Clients							
Embracer Group	Sweden	40 460	Pub/Dev	PC/Console	Premium	<300	High
Stillfront Group	Sweden	25 252	Pub/Dev	Mobile	Free to Play	<30	Medium
Remedy Entertainment	Finland	2 472	Dev	PC/Console	Premium	<5	Low
EG7	Sweden	1 603	Pub/Dev	PC/Console	GaaS/Premium	<30	Medium
G5 Entertainment	Sweden	1 417	Pub/Dev	Mobile	Free to Play	<30	Low
Atari	France	773	Pub/Dev	Mobile	Free to Play	<30	Low
Flexion Mobile	Sweden	277	Dist/Pub	Mobile	Free to Play	<30	Medium
M.O.B.A Network	Sweden	228	Community	Internet	Advertsing	<5	Low
Nitro Games	Sweden	45	Pub/Dev	Mobile	Free to Play	<5	Low
Other listed companies							
Paradox Interactive	Sweden	23 784	Pub/Dev	PC	Premium	<30	Medium
MTG	Sweden	6 751	Investment comp	Mobile	Free to Play	<30	Medium
Rovio Entertainment	Finland	3 557	Pub/Dev	Mobile	Free to Play	<30	Low
Digital Bros	Italy	3 431	Pub	PC/Console	Premium	<30	Medium
MAG Interactive	Sweden	449	Pub/Dev	Mobile	Free to Play	<10	Low
Bublar Group	Sweden	400	Pub/Dev	Mobile/Video	Free to Play	<5	Low
Adverty	Sweden	72	Tech Platform	Mobile	Advertsing	<10	Low
Beyond Frames	Sweden	40	Pub/Dev	PC/Console	Premium	<5	Low
Private companies							
Azerion	Netherlands	Private	Investment comp	Multi platform	Diversified	<100	High
Thunderful Group	Sweden	Private	Dist/Pub/Dev	PC/Console	Premium	<20	Medium
Funrock/Prey	Sweden	Private	Pub/Dev	PC/Console	Premium	<10	Medium
Stunlock Studios	Sweden	Private	Pub/Dev	PC	Premium/F2P	<5	Low

*Revenue diversification
Source: Redeye, Bloomberg



MSEK Cash	Sales 19E	EBIT 19E	EV/Sales	EV/EBIT	Stock price**	Redeye fair value Base	 Bear	 Bull
2510	8 219	1 959	4,9	20,7	120	130	65	170
342	3 891	1 552	6,5	16,3	715	750	500	950
206	418	110	5,9	22,5	22	22	11	32
106	620	37	2,6	43,3	42	33	17	60
152	1 347	91	1,1	15,6	96	237	80	536
89	336	43	2,3	18,0	2,3	4	2	5,5
28	175	-21	1,6	neg	7,2	12	5	35
32	42	14	5,4	16,3	140	170	85	300
55	26	-16	1,7	neg	9,7	12	5	45
554	1 789	796	13,3	29,9				
1824	4 396	-113	1,5	neg				
1357	2 844	357	1,3	10,0				
50	1 424	177	2,4	19,4				
185	198	-14	2,3	neg				

Redeye Gaming Guide 2020



REDEYE GAMING GUIDE 2020 12

INTERVIEWS QUESTION WITH CEOS AT OUR CLIENT COMPANIES 14

WHY INVEST IN GAMING 20

INDUSTRY DESCRIPTION 22
Game Genres 22
Mobile Game Genres 23
Golden Game Franchises 23

INDUSTRY VALUE CHAIN 24
Revenue models 25

THE MARKET 26
Size and growth 27
The Big Players 28
Bestselling games 2019 29

VALUATION PER SEGMENT 30

REDEYE NORDIC GAMING INDEX 32

"NETFLIX FOR GAMES" 34
Content is King 35
Explosive Growth 35
Next Generation of Subscriptions 35
Cloud Gaming 36

THE COVID-19 EFFECT 37
Holiday-season again… 38
Digital Sales Surge 38
Consolidation 38

ESPORT – A GLOBAL PHENOMENA 40

THE ECOSYSTEM OF ESPORTS. 42
Platforms 44
The opportunities of tomorrow 45

DISCLAIMER 46

Interviews question with CEOs at our client companies

The questions we asked the CEOs of our client companies were:

A) What were the major highlights in 2019 for your company?

B) How has COVID-19 affected your business in 2020?

C) What will be your main focus areas in the coming 2-3 years?



Lars Wingefors, Embracer Group

A) Highlights in 2019?
We welcomed more great people to the group, giving us opportunities for new markets; Milestone, Gunfire Games, Tarsier, among many others. We finally changed our name to avoid mix up, going from THQ Nordic AB to Embracer Group AB.

B) COVID-19 effect?
COVID-19 challenged us all, however, I am grateful in that our employees who so quickly adapted to a new situation and committed to keeping our business going despite the difficult circumstances. The Games business had a record-high proportion of digital sales as the general global lockdown created a significant consumption of games.

C) Main focus?
We are on a journey building something substantial and long-lasting. Our M&A strategy retains a strong pipeline of possibilities, where we are looking forward to welcoming many new creators and entrepreneurs to the group. We will create organic growth, based on the release of our pipeline of more than 100 ongoing games as well as a continued back catalog sales.

In the last year, we have shaped the foundation on our approach to ESG/sustainability-matters, going forward, we will continue to secure that it becomes an integral part of our everyday work throughout our global organization.



Jörgen Larsson, Stillfront Group

A) Highlights in 2019?
In 2019 we built an operational platform for a three times larger company within the next coming years – our 3x vision. Further, we also strengthened our position in the converging game industry where our scalable, decentralized model allows us to stay close to rapidly shifting consumer preferences.

B) COVID-19 effect?
The actions taken to prevent the spread of COVID-19, such as working from home and practicing social distancing, has had a positive impact on our business. In the first quarter, the overall gaming activity accelerated, both a large inflow from newly registered users as well as existing user bases, across the portfolio of games.

C) Main focus?
We aim to be the leading free-to-play powerhouse with focus on low risk and long life-cycle games. Our healthy financial model supports investments in business development, and, in addition, we continue to see strong opportunities for profitable growth through further acquisitions. We have a clear idea on how to achieve market leadership in the rapidly changing game industry and we believe that size will matter even more in the future, due to several commercial benefits, which is the rationale behind our 3x vision.



Tero Virtala, Remedy Entertainment

A) Highlights in 2019?
2019 was an important milestone in our longer-term growth plans. For the past three years we had built new game teams, initiated new projects, and developed our ways of working. In 2019, we got into the aimed growth path, in a way that builds a sustainable basis also for long-term growth.

B) COVID-19 effect?
In Finland overall, we were in a good position, having bit more time to prepare for the pandemic than Southern and Middle European countries. At Remedy, we started in February to prepare for the scenario that COVID-19 might continue to grow into a much bigger challenge. We set up a COVID-19 strike team that was able to make further remote-work enabling improvements to our tools, infrastructure and to many related practicalities.

After that, by mid-March, over 90% of our employees began to work remotely, with good productivity. Since then, we have kept improving to ensure both that our game projects proceed well and increasingly also to proactively support the mental and physical wellbeing of our employees in these special times. In the wider business context, games have continued sell when people spend so much time indoors.

C) Main focus?
We continue with the next phase of our growth plan. Focus will be on the four main game projects we have in development: Control, Crossfire, 3rd unannounced project and the 4th project Vanguard. We will continue to invest and develop capabilities that support these games to become successes creative-, production-, and business-wise, keeping in mind our goal of launching at least one game or game expansion annually.



Frédéric Chesnais, Atari

A) Highlights in 2019?
Continued profitable growth of the business driven by strong performance of the licensing business and ongoing solid performance by our flagship game RollerCoaster Tycoon Touch which passed 30 million downloads, combined with a continued effort towards the development of the Atari Video Computer System, the new Atari hardware.

B) COVID-19 effect?
COVID-19 has prompted the company to shift its entire staff to work from home in order to ensure safety and business continuity. This has also been the case for most of the game development studios working on our games. The transition has been smooth in general and has contributed to some growth of our games business. We have even continued to release new games during this period.

COVID-19 has however impacted the sourcing, production and timing to market of the Atari VCS, which was scheduled to launch in March 2020 and is now delayed. We are all waiting for the China supply chain to come back to normal. Finally, some of our licensing partners have also been affected by COVID-19, which may impact the signing of new licensing deals and the extension of existing ones.

C) Main focus?
We will continue to focus on the growth and development of our four business units: Games with a continued focus on mobile gaming and licensing, Casino with the roll-out of real-money online games in selected countries, VCS with the commercial launch and addition of new content and Partners with a focus on the announced launch of the Atari Token crypto-currency.



Vladislav Suglobov, G5 Entertaintment

A) Highlights in 2019?

In 2019 we started to see first results from an important phase of the company's development as we have started to see new generation of games developed internally come to the market and generate substantial revenue. Previously the company has built increased development capacity over several years and started a number of new projects, and in 2019 finally these games started reaching the market after a long development phase.

As of now, all new games released since 2019 are performing well and contribute to the growth of the top line and increased earnings margins, in line with the strategy we have outlines earlier and consistently pursued over the last two years. In 2019 we have also started an important work to make our marketing more competitive and efficient and we have achieved good result in this regard. This work will continue during 2020.

B) COVID-19 effect?

For the safety of our employees and because we can do so without any disruption, we have moved everyone in the company to work from home until further notice. We are still keeping this in effect and have not set a specific timeline for returning to office work. There is also no pressing need for us to return to working from the office, because we can see that our efficiency has not declined in work from home mode and the teams are doing an amazing job releasing new games.

On the demand side, as we explained in our first quarter report, we have seen a dramatic surge in downloads when lockdowns were introduced in our main markets, and this is obviously a boost to our audience numbers, while it lasts. We are also lucky to be in the industry that tends to benefit in difficult times because the entertainment we provide is more affordable and accessible than alternatives. That said, we are not isolated from the economy and longer-term concerns about the impact of the financial crisis on our users remain. We hope that governments will take the measures necessary to avoid or reduce substantial economic fallout.

C) Main focus?

We put a lot of effort in the new generation of games that will form the most important part of our portfolio in the next 2-3 years. The games we have released in 2019 and that we are releasing this year will set the foundation for the performance of the company during this period. We are very happy to see solid performance from these new games like Jewels of Rome and Jewels of the Wild West and we continue working on other games we have in the pipeline for release this year and next.

New games and improvements in marketing should bring the expansion of the top line which should bring profit margin expansion due to the inherent leverage of the business model. The other margin-expanding factor is the percentage of revenue from own games in the portfolio going up, because internally developed games have higher gross margins. We have done a lot of work in the last two years to achieve this, and we will focus on realizing the potential of the investment we have made in new games and improved marketing over the next 2-3 years.



Jens Lauritzson, Flexion Mobile

A) Highlights in 2019?
There were many highlights in 2019. The most important one was that we grew our game portfolio to 15 titles. In 2018 we only had a couple of top tier games but in 2019 we started to see portfolio effects and our revenues grew by +40%. We launched our first Top 10 US grossing game and we expanded our distribution platform with the addition of Huawei and Xiaomi. In 2019, we became the biggest game publisher in terms of titles on Samsung, Amazon and Huawei.

B) COVID-19 effect?
It is widely recognized that COVID-19 has had a positive impact on the games industry as a whole and the mobile games segment has clearly benefited from the global lockdown measures. The alternative distribution market has also benefited as a result of consumers having more time to explore new offers and distribution channels outside of Google Play.

For Flexion, this means more interest from both consumers and game developers. This is great news given our leading market position. We saw no operational impact from COVID-19 as we already had a full remote access policy in place before the pandemic hit Europe.

C) Main focus?
Our focus is on growing our core business which means adding new games and channels and, of course, improving performance of existing games on existing channels. We can see the evolution of new channels as the Chinese device manufacturers' grip on the device market strengthens.

There is also an increase in demand for alternative distribution from game developers primarily in the Asian markets. We will work to strengthen our position in this region to capitalize on the strong east to west trend. On the product side, we see that paid user acquisition will become more important as alternative channels will challenge Google and Apple with better pay-outs. We will invest to become the go-to-company in the space.



Jussi Tähtinen, Nitro Games

A) Highlights in 2019?
The main highlight of 2019 was definitely our new stronger team. We started the year by streamlining our cost structure and ended the year stronger than ever with a new senior team, delivering sequential improvements in revenues & EBITDA.

B) COVID-19 effect?
COVID-19 hasn't affected our business that much to be honest. We're all in remote working mode now, but for us that's business as usual since we have 2 studios that are used to communicating with each other remotely. I guess the biggest impact is in the lack of travel and industry events, which means our business development spends a lot of time in remote meetings.

C) Main focus?
Our vision is to become a household name in the category of shooter games on mobile. Our focus right now is in delivering a scalable F2P game, to unleash the full potential of Nitro and our portfolio over the next few years. We are also looking to expand our service business through new deals & projects with industry leading partners.



Robin Flodin
EG7

A) Highlights in 2019?
For the group, the three acquisitions of Petrol, Antimatter Games and Sold Out added SEK 500 million to the group.

B) COVID-19 effect?
Our work force is used to work remote, so the development has not been highly affected. The physical sales have slightly declined due to closed stores, and revenues has shifted from H1-2020 to H2-2020. So not highly affected by Corona.

C) Main focus?
Build a profitable business, with successful game releases and acquisitions, and to have a profitable diversified full-service gaming group.



Björn Mannerqvist,
M.O.B.A Network

A) Highlights in 2019?
The main highlight is that we were able to improve our community platform and offer our members more while at the same time being able to grow our revenues and business KPI's.

B) COVID-19 effect?
he biggest effect of COVID-19 for us was that we needed to quickly pivot from relying mostly on programmatic ad revenues which took a big hit from March, to direct ad sales and partnerships. We were able to do this in a very short amount of time and we believe that model will be beneficial going forward after COVID-19.

C) Main focus?
To keep providing great community platforms for highly engaged gamers. We will focus on developing our existing brands, launch new brands and focus and making smart and strategic acquisitions that we can grow.

Why invest in Gaming



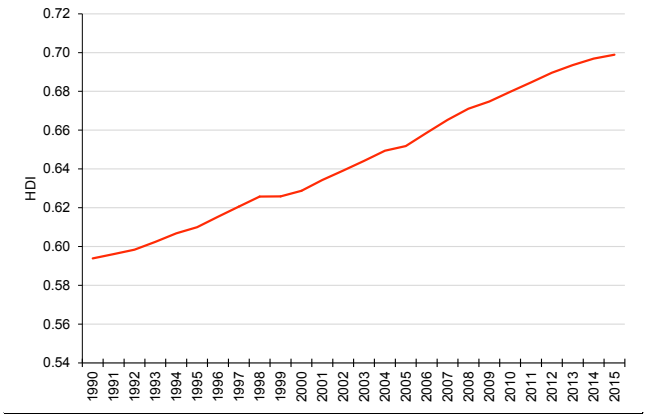
The video game industry provides investors the opportunity to benefit from an ongoing secular growth trend. Some of these factors are globally improved living standards, demographic shifts, digitalization and the smartphone era.

Increased demand for free time entertainment

Global living standards are improving steadily, here visualized by the rising average World Human Development Index.

For the gaming industry this leads to the following:
- More free time and an increased demand for entertainment
- More money to spend on entertainment globally

Human Development Index, world average

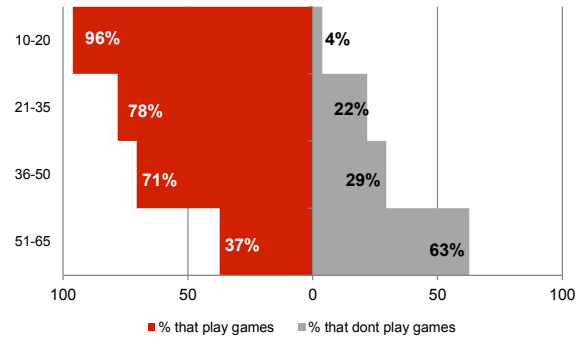


Source: http://hdr.undp.org

Gamers come of age

Demographic shift increases the average age of gamers. Popularity for games grew large during the 80s and 90s; these are now in their mid-thirties with life-time peak of spending power. We believe that the adult population that today sees games as a normal part of their leisure time, will also do so when they come close to retirement. The "gaming" generation also passes on their interest to their children, which will lead to more even more adults playing games in the future. In the USA there are today about 160 million people in the ages 10-65 that play games at least one time per month. Demographic shifts will lead to an increasing share of people closer to retirement playing games, creating a massive opportunity and a growing target group.

% Gamers per age population in the USA

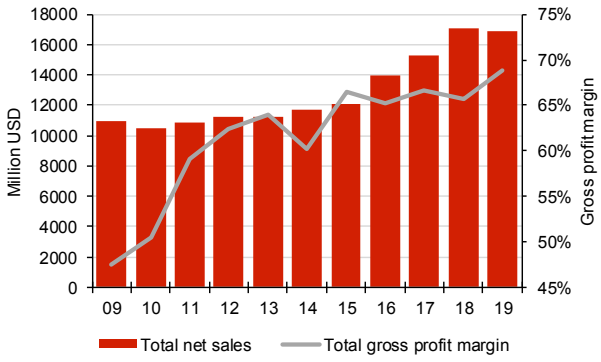


Source: Newzoo, populationpyramid.net & Redeye Research

Digitalization lower cost of distribution

The rise of digital distribution has led to lower costs for selling games, which leads to an increased share of profits for game developers. The Improved profits lead to greater reinvestment opportunity's and thus improving the gaming experience and drive innovation.

Aggregated net sales and gross profit of large game developers*



Source: Bloomberg & Redeye Research

**EA, Activision-Blizzard, Ubisoft, Take-two*

Industry description

The gaming industry consists of several different Game Genres for all kinds of players. We describe the different categories and provide game examples. In this section we also look closer at the Industry Value Chain that the ongoing digitalization is changing dramatically. Originally it has consisted of developers, publishers, distributors, retailers and consumers. Another important aspect is how the revenues are generated, where different Revenue Models are applied. Full game is the traditional form but lately subscription-based has become the new trend.

Game Genres

Shooter/FPS

In the shooter genre we can find many popular subgenres which often test the players reflexes, speed and accuracy. First Person Shooters (FPS) is the most popular subgenre.

Examples: **Call of Duty, Battlefield, Gears of War**

Action/Adventure

Played in third person. The games are story driven with a focus on action and collecting inventories. Often problem solving and puzzle-elements.

Examples: **Zelda, Tomb Raider, God of War**

RPG (Role Playing Game)

Character evolves as the game progresses. Customizable characters. Most games today are Action RPGs.

Examples:**The Witcher, Final Fantasy, Skyrim, Mass Effect**

MMORPG (Massive Multi-player Online RPG)

Thousands of individuals play online simultaneously. Game environment is constantly active. Paid accounts and in-game purchasing.

Examples:**World of Warcraft, EVE, The Elder Scrolls Online**

Strategy

Strategy games has logical and tactical gameplay mostly played on PC or mobile played in real-time or turn-based. MOBA (Multiplayer Online Battle Arena) is a subgenre and especially popular in Asia.

Examples: **Clash of Clans, League of Legends, DOTA, Starcraft**

Simulation:

Designed to closely simulate real world activities. Usually no strictly defined goals in the game.

Examples: **Cities: Skylines, Sims, Farming Simulator**

Puzzle:

Objective to solve or survive the puzzle. Players intelligence is primary and controller skills is secondary. Tetris invented the sub-genre Match 3 Puzzle and Candy Crush made it highly commercial on mobile.

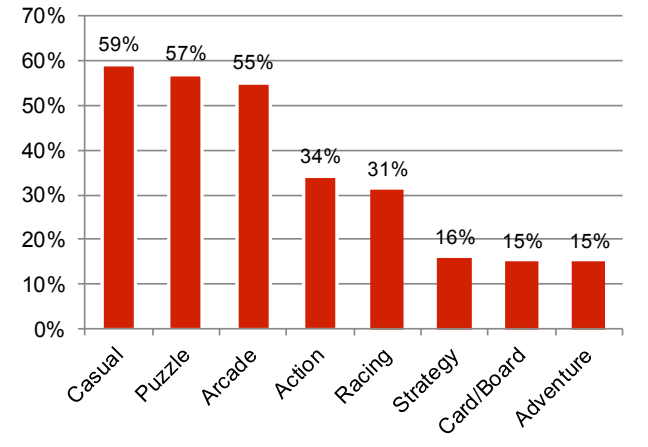
Examples:**Tetris, Candy Crush Saga, Unravel**

While Action/Adventure and shooter games dominate the western markets on PC and Console, MOBA, RPG and Fighting games are amongst the most popular and highest grossing genres in the Eastern markets.

Mobile Game Genres

On the mobile games market, the highest grossing genres differs a lot compared to PC and Console. Some of the most popular games is two or more genres combines. A puzzle, arcade or action game could also be a classified as a casual game.

Most Popular Mobile Genres (2019)



Source: NDP Group

For example, "Candy Crash Saga" the highest grossing mobile game of all time is a Casual Puzzle game so-called "Match-3". Despite that this genre attract casual gamers the userbase is often highly loyal. This is one of the most important reason why both Rovio and G5 Entertainment has entered the Match-3 market.

While for example Casual games is most popular on mobile, for example strategy games is amongst the highest grossing games. One of Stillfront's primary focus areas is strategy games, characterized with an even more loyal userbase than most other genres.

The top grossing genres on mobile is casino (slots), Match-3, RPG and strategy games. These four top-grossing genres has remained on the top for several years.

Golden Game Franchises

The most commercially famous collector of Game IPs (Intellectual Property) in the Nordics is perhaps Lars Wingefors. He truly values the importance of a strong IP portfolio. However, if we look at the top-grossing game franchises of all-time, western countries is not even close to primary Japan. Only Activision-Blizzard manage to win two of the spots on the Top-10 list with Call of Duty and World of Warcraft.

However, we have decided to exclude estimated merchandise sales in our Top-10 list. Both the recently celebrated 40-year old Pac-Man (Bandai Namco) and Space Invaders (Square-Enix) is therefore excluded on our list.

All Time Top Grossing IPs (USD)

Franchise/ IP	Owner	Revenue*
Mario	Nintendo	27 billion
Pokémon	Nintendo	20 billion
League of Legends	Tencent	20 billion
Call of Duty	Activision-Blizzard	18 billion
Dungeon Fighter	Nexon	13 billion
Candy Crush	Activision-Blizzard	12 billion
Street Fighter	Capcom	12 billion
Crossfire	Smilegate	12 billion
Final Fantasy	Square-Enix	11 billion
World of Warcraft	Activision-Blizzard	11 billion

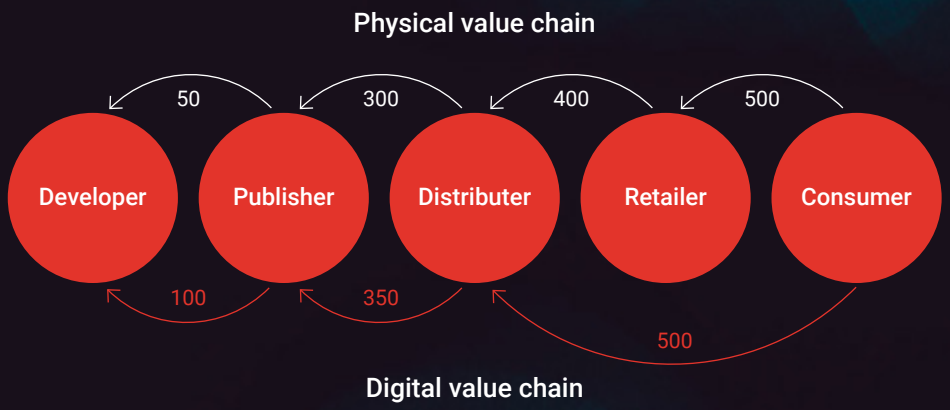
Source: TitleMax, Forbes * Revenue from estimated game sales

The two most valuable IPs in the gaming industry is owned and partly owned by Nintendo. Pokémon is on top of the list with a wide margin (USD 92 billion). In fact, the margin is so wide, number 3-10 combined is equal to the total estimated revenue from Pokémon. Nintendo own 32% of the Pokémon Company. Pokémon is also the highest grossing media franchise of all time. Followed by Hello Kitty and three Disney franchises, Winnie the Pooh, Mickey Mouse and Star Wars. However, the comparison is somewhat misleading, due to the lion part (62%) of the revenues from Pokémon comes from merchandise sales.

Instead the most famous father of video games is rightful golden boy when it comes to actual game sales.

League of Legends, Dungeon Fighter and Crossfire is currently the most profitable game franchises on PC with its stronghold in China. All these games have generated over USD 1 billion yearly for some time now. Our covered company Remedy will release a story mode for Crossfire this year in the western markets. Three more classic franchises in the western markets is Street Fighter, Final Fantasy and World of Warcraft. Swedish founded King has generated close to USD 14 billion since the release of Candy Crush Saga. We believe the Candy Crush-series should be on the Top-10 list based on our assumptions. FIFA and GTA comes in 11th and 12th place according to our estimates.

Industry value chain



Simplified, the value chain within the Gaming industry consists of the following players: **Developer, Publisher, Distributor, Retailer and Consumer**

Developers

Developers can be divided into three different categories.

A **first-party developer** is part of a platform owner, such as Sony and Microsoft, and develops games exclusively for this platform

Second-party developers are game developers that are connected to a platform owner in making exclusive content. Unlike a first party developer, they can be an independently owned studio.

Third-party developers are platform independent and are either a games publisher as well, or develop the games for one or several games publishers. EA and Ubisoft are two examples of third-party developers.

A value chain that is changing

There has been a dramatic change from physical distribution to digital distribution.
- Loser: Retailer
- Winner: Distributor

Higher revenues for publishers and in some cases developers. Distributors such as Apple and Google are minimizing risk and maximizing profits thanks to digital distribution.

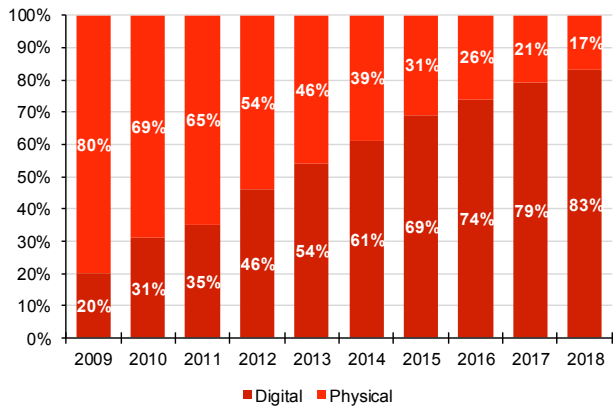
Distributors

Distributors are usually game vendors, supermarkets and internet providers. Distribution via digital channels is becoming more common as gamers prefer digitally distributed games. All the console manufacturers have their digital platforms.

Publishers

A game publisher publishes video games that they have either developed internally or have developed through a video game developer. Usually, the publisher provides financing for the development of the game while also being responsible for the market research, pricing of the game and all aspects of marketing and advertising.

US computer and video games sales by delivery format



Source: Entertainment Software Association; NPD Group

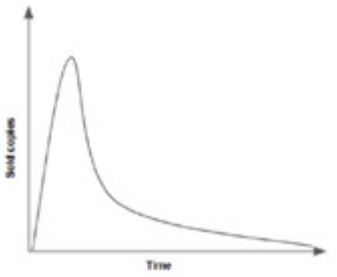
In 2009 roughly 80% of video game sales in the USA where physical, nine years later, in 2018, that number stood at only 17%. We believe that the physical market will continue to exist but should be considered a niche market.

REVENUE MODELS

The following section describe the most common revenue models for the two respective segments; PC/console and mobile.

Full game/premium

Traditional model where the customer pays for the whole game up front. Most often about 70% of the life-time value comes during the first months post release.

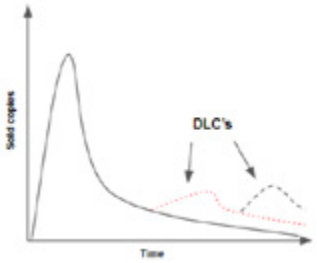


Examples from our Universe:
Control, Metro Exodus, Mutant Year Zero



Extra content

Often called "Add-ons" and DLC (Downloadable Content). Downloadable Content (DLC) /Expansion pack: Usually extended storyline, new game areas or objects which are distributed digitally by the game's official publisher.



Examples from our Universe:
Conan Exiles, Payday 2, MX vs. ATV etcetera



Freemium/F2P

F2P (Free to Play) has been dominating the mobile industry: In late 2016 Nintendo tried charging players when launching Super Mario Run but without success a strong sign how difficult the old revenue model is in mobile games nowa-days. Freemium is starting to take a position in the console industry as well with strong titles like Fortnite, PUBG and Warframe. Around 85% of the global market is free-to-play games, dominating on mobile and PC.

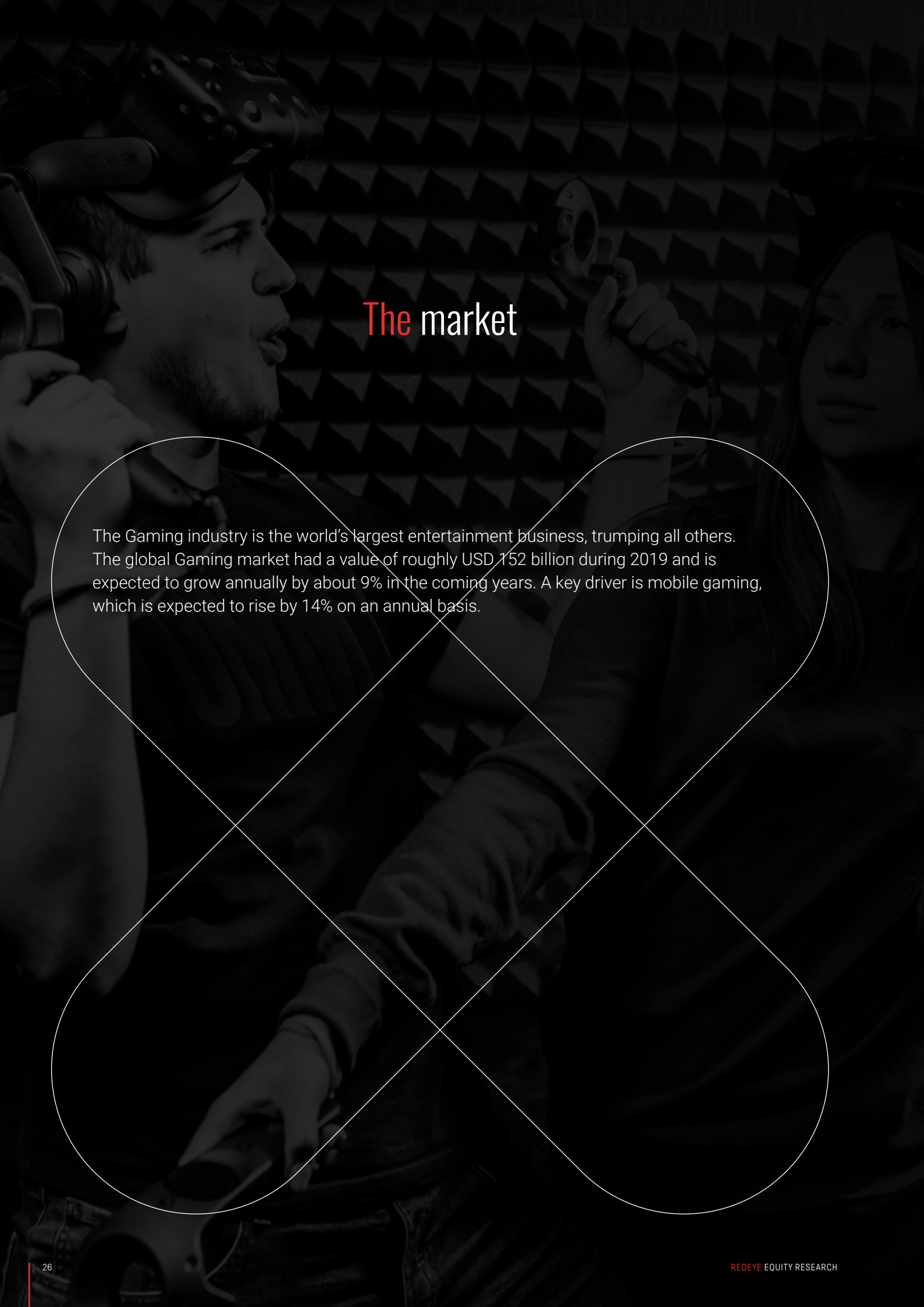
Examples from our Universe:
Hidden City, Big Farm, Heroes of Warland



Subscription-based

Subscription-based is the new trend. EA, Sony and Microsoft have launched new subscription based services. This could also be a more common revenue model for mobile games in the future. Possibly for the whole industry as well where the dominating giants charge subscriptions for all their games cross-platform. In 2018 Microsoft two biggest exclusive titles was released on "Xbox Game Pass"

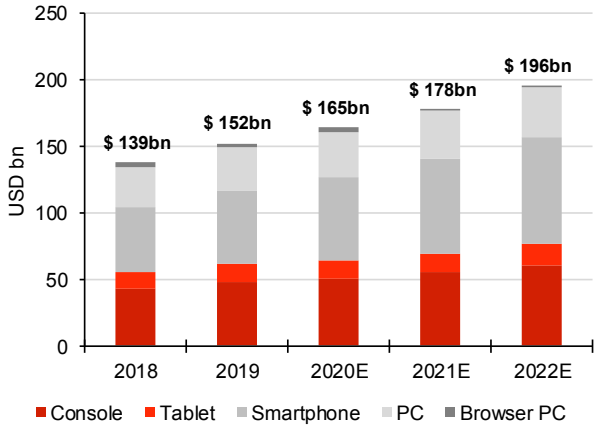




The market

The Gaming industry is the world's largest entertainment business, trumping all others. The global Gaming market had a value of roughly USD 152 billion during 2019 and is expected to grow annually by about 9% in the coming years. A key driver is mobile gaming, which is expected to rise by 14% on an annual basis.

Global Gaming Market in USD bn



9% CAGR 2019-2022, Smartphone CAGR of 14%

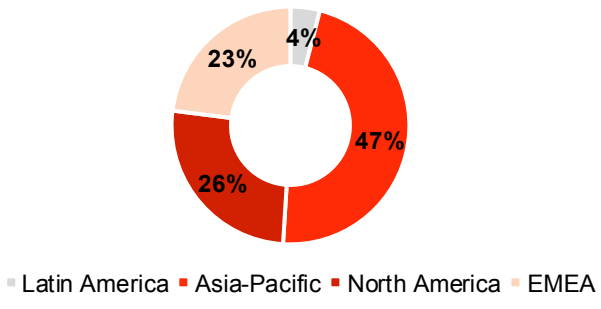
Source: New zoo

Globally there are about 2.7 billion gamers, i.e., plays at least one time a month. The average gamer is 35 years old and the gender split is relatively even, with a slight predominance of

#Gamers	Avg age	Gender
2.7Bn	35	M 54%, F 46%

In 2019 the Asia-Pacific territories will generate USD 71.4 billion. China stands for the majority of revenues.

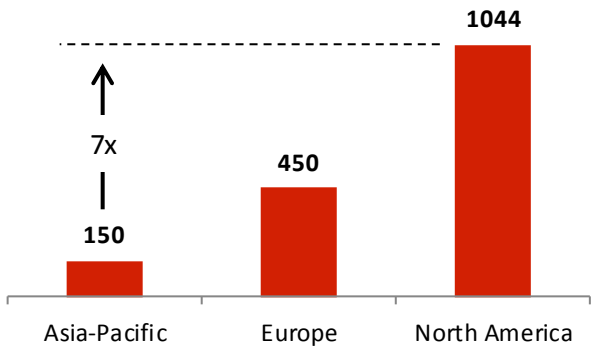
Global games market per region 2019



Source: New zoo

Asia-Pacific has a huge population but the spending per capita and per gamer are still much lower than in the West.

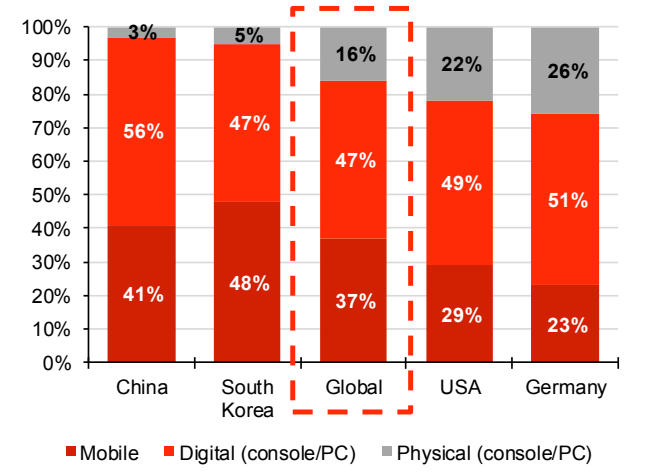
Revenue per capita (SEK)



We expect that the revenue per capita will increase significantly in Asia in the coming decade. The Asian market is an immense opportunity but is also most often hard for Western Gaming companies to enter due to differences in culture and distribution. There is a clear trend where Western gaming companies partner up with Asian representatives, we expect this will continue.

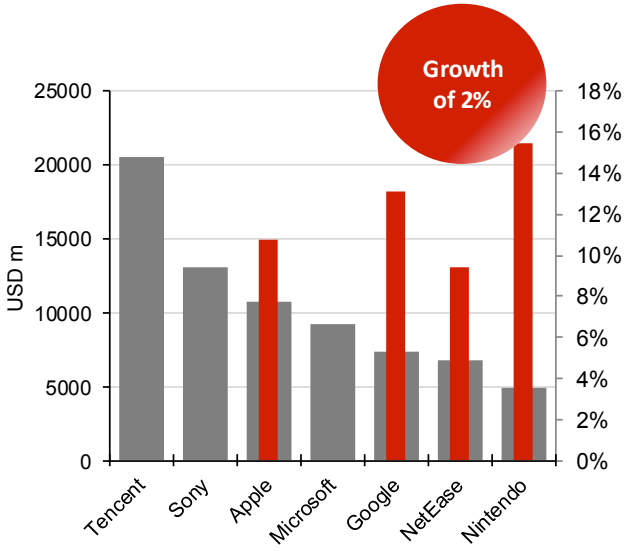
The boxed console and PC games stand for a minority of the game's sales in China and South Korea. The boxed industry is almost non-existing, and it was forbidden to sell consoles until mid-2015.

Market share per country, mobile digital & physical



Source: New zoo

Revenues are very concentrated at the top. USD 81.5 billion (85) comes from the top 10. The global games market amounted to USD 152 billion which means 54% of total revenues come from the top 10. Tencent alone earned USD 20.5 billion in revenues, accounting for more than 13% of the entire games market and was the world's number one public company by game revenues for the seventh year running.



Platform owners as a group ended its winning streak of yearly double-digit growth. Both Tencent and Microsoft showed a yearly negative growth of 2% in 2019. Sony showed a negative growth of 8%. All those companies had strong comparable numbers from 2018. For example, all console owners showed off a 30% growth last year. The next generation of consoles was announced during the year, which dampened console sales. Only a few major game releases are another explanation for the weak growth numbers.

Handheld gaming was the big winner, with Nintendo's hybrid console on the forefront followed by Google and Apple. Overall our 7 biggest platform owners in the table only grew 2% last year.

Since the beginning of 2019 Nintendo has outpaced its competitors in console sales. One of the explanations is that the console released more than three years later than its competitors. But as everybody knows in this industry it is software that sells hardware. And Nintendo has built up an impressive exclusive game library in the last three years. The hybrid console has also become an essential platform for indie games.

The growing third-party support has also been an important driver for the success.

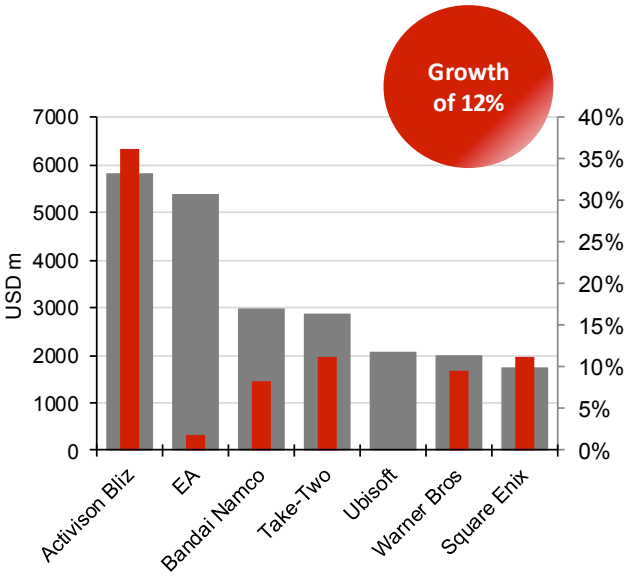
Console War Since Beginning of 2019

Platform	Units Sold	Growth	Total
Nintendo Switch	26.3 million	89%	55.8 million
Playstation 4	18.2 million	20%	110 million
Xbox One	6 million	14%	47 million

Source: VGChartz

The major game publishers as a group had a comeback year with a combined growth of 12% (amongst the seven biggest companies). The major contributor is Activision Blizzard. The stock has climbed 60% in one year but is still below its All-Time High in late 2018.
The company has been able to monetize well on its strong IP-portfolio, especially on "Call of Duty". And the success has continued in 2020. The free-to-play version of Call of Duty called Warzone has attracted a user base of 60 million gamers in about one month, boosted by the COVID-19 situation.

Activision Blizzard also owns the Swedish founded mobile game company King, most famous for Candy Crush. This game franchise grew approximately 15% in 2019 and was the biggest revenue contributor to the Group.



Ubisoft reported a negative growth of 7% due to a disappointing game release followed by delays in planned game releases. However, the consequence of these delays has resulted in a very strong pipeline in 2020. We believe Ubisoft will likely be the winner this year when it comes to revenue growth, something the stock market also seems to have realized.

The major hype from the so-called "Battle Royale" games like Fortnite and PUBG cooled off in 2019. Still, Fortnite was the highest-grossing game in 2019. Revenues from the top-grossing free to play games remain stable. A majority (6 out of 10) are mobile games and most of them have their stronghold in Asia.

Free to Play Games 2019 (USD m)

Game	Publisher	Platform	Revenue	Growth
Fortnite	Epic Games	Multi	1 800	-25%
Dungeon Fighter	Nexon	PC	1 600	7%
Honour of Kings	Tencent	Mobile	1 600	23%
League of Legends	Tencent	PC	1 500	7%
Candy Crush Saga	Activision	Mobile	1 500	15%
Pokémon GO	Niantic	Mobile	1 400	8%
Crossfire	Smilegate	PC	1 300	0%
Fate/Grand Order	Aniplex	Mobile	1 200	0%
Game for Peace	Tencent	Mobile	1 200	New on list
Last Shelter	Long Tech	Mobile	1 100	New on list

Source: SuperData

Two new entries this year, both of them mobile games. Game of Peace is not a new game, it is a Chine´s rebranding of the game PUBG Mobile. After the rebranding, the game generated nearly USD 0.5 billion in Q3 alone.

Last Shelter is released by Hongkong-based Long Tech Networks established in 2015. The team behind it surely has found many "mainstream flavors" in its perfect mix. It is a zombie and post-apocalyptic themed based management, builder, and survival multiplayer game. The creator of this game has done its homework in finding popular ingredients and was rewarded with USD 1.1 billion in revenue in 2020.

Digital Premium Games 2019 (USD m)

Game	Publisher	Platform	Revenue
FIFA (2 latest)	EA	Multi	1 272
Call of Duty (2 latest)	Activision	Multi	1 132
NBA 2K (2 latest)	Take Two	Multi	607
GTA 5	Take Two	Multi	595
The Division 2	Ubisoft	Multi	370
Rainbow Six: Siege	Ubisoft	Multi	358
Borderlands 3	Take Two	Multi	329

Source: SuperData

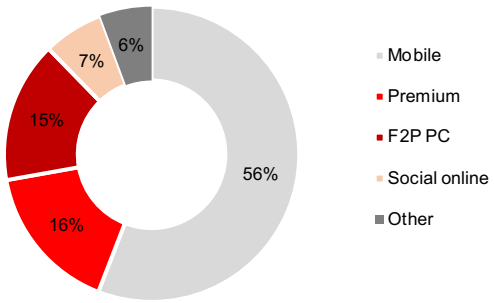
It is of course interesting to compare the highest-grossing free to play games with premium games. In our table, with premium games, we only look at digital revenue this year. Our primary source (VGChartz) reporting physical sales has not published sales numbers for 2019 yet.

As always FIFA and Call of Duty were the major winners in the premium segment. The latest installment of those game series always shows solid physical sales as well, which means we most likely can add another 50% of revenue at least to the digital revenue in our table. This means the highest-grossing games in the western world also remained stable with Fortnite, Call of Duty, FIFA, and Candy Crush in pole position.

The relatively brief period King (Candy Crush) was a public traded company (on its own) there was an investor skepticism of how sustainable revenues were in its smash hit Candy Crush. At that time free to play games, in general, was in an early stage. Now seven years later after the release of the first game King has reported revenues of nearly USD 2 billion every year (mainly from the Candy Crush franchise). Activision Blizzard completed the acquisition of King at the beginning of 2016 for USD 5.9 billion. The game giant surely knows the value of a loyal fanbase.

Free to Play (F2P) games generate 80% of total digital game sales globally according to Superdata and still show considerable growth in relation to traditional "Premium Games". Most of the total revenue from Asia comes from Free to Play games. A market for physical premium games in Asia is close to non-existent while it is still major in the west. When we look at digital sales separately in the pie chart below we see that revenue from premium games on PC/Console is a smaller market than Free to Play on the same platforms.

Digital Games sales distribution (2018)



Source: Newzoo

Valuations and Investment opportunities



On an overall level, the multiple valuations most often range from; 10-22x EV/EBITDA and 12-30 EV/EBIT. Our company sample is based on 37 companies with data from Bloomberg. There are a handful more public gaming companies, but they have been excluded due to a lack of consensus estimates.

VALUATIONS AND INVESTMENT OPPORTUNITIES - **SEGMENT VALUATIONS**

Mobile

The companies in our Mobile list have an almost exclusive focus on creating mobile games. On an aggregated level the mobile companies have the lowest valuations. The group is valued, based on 2019 estimates, at 14x EBITDA, and 17x EBIT. The aggregated group is expected to grow annually by 23% in the coming three years with an average EBIT margin of 23%. Compared to last year the aggregated valuation level has increased from 15x EBIT. The total aggregated EV value for the Group increased 23%, the main driver is a higher valuation for the largest players like NCSOFT, Zynga, & Stillfront (which have increased by a whopping 4x).

Valuation Mobile (mUSD)

Company	EV	EV/EBITDA 20E	EV/EBIT 20E	S. CAGR 19-22E	EBIT % 19-22E
NCSOFT	12 917	14x	15x	24%	40%
Zynga	7 473	21x	21x	18%	21%
netmarble	5 730	20x	28x	7%	12%
Stillfront	2 616	16x	23x	37%	29%
GLU Mobile	1 355	29x	34x	16%	11%
GUNGHO	792	4x	4x	-10%	19%
Playway	777	29x	29x	23%	70%
MTG	702	27x		9%	3%
Com2us	627	5x	6x	9%	26%
Rovio	374	8x	10x	-2%	12%
Changyou.com	286	2x	3x	2%	35%
11 Bit Studios	260	34x	46x	30%	40%
G5 Entertainment	148	7x	15x	7%	8%
MAG Interactive	47	20x		9%	3%
Next Games	37			20%	-6%
Nitro Games	9			77%	-37%
Agg.	**34 148**	**14x**	**17x**	**12%**	**23%**

Source: Bloomberg & Redeye Research

Console & PC

Console and PC focused gaming companies receive the highest valuation based on annual multiples. One possible reason for this is that these types of companies most often have more volatile sales swings then, for example, mobile gaming firms. Not all but many only have a few IPs with a three year plus development cycle. The group is valued, based on 2020 estimates, at 19x EBITDA and 24x EBIT, during the year we have seen a multiple expansion. The value on an aggregated level has increased by close to 64% compared to a year ago.

The aggregated group is expected to grow annually by 18% in the coming three years with an average EBIT margin of 24%. Many companies in this segment group are active acquires, so this affects the growth rates to some degree.

Valuation Console & PC (mUSD)

Company	EV	EV/EBITDA 20E	EV/EBIT 20E	S. CAGR 19-22E	EBIT % 19-22E
Take Two Interactive	14 186	24x	27x	15%	20%
CD Projekt Red	9 396	16x	16x	57%	64%
Perfect World	7 578	20x	21x	17%	25%
Embracer Group	4 235	13x	90x	23%	9%
Paradox Interactive	2 471	23x	30x	18%	41%
Frontier Development	948	30x	56x	12%	21%
Remedy Entertainment	271	24x	26x	16%	27%
EG7	167	13x	43x	72%	7%
Focus Home Interactive	120	6x	6x	5%	12%
Agg.	**39 372**	**19x**	**24x**	**18%**	**24%**

Source: Bloomberg & Redeye Research

Cross-platform

The companies in the cross-platform group are most often active in all segments, own proprietary platforms, or even console systems like Nintendo. Most companies in this group have more stable revenues and profitability then mobile and Console/PC. The aggregated group is expected to grow annually by 15% in the coming three years with an average EBIT margin of 28%. The total aggregated value has increased by almost USD 140bn or 23%. The largest drivers during the year in value expansion were Tencent, Nintendo, Activision Blizzard, and NetEase.

Valuation Cross-platform (mUSD)

Company	EV	EV/EBITDA 20E	EV/EBIT 20E	S. CAGR 19-22E	EBIT % 19-22E
Tencent	537 431	22x	27x	21%	30%
Activision Blizzard	53 076	19x	20x	9%	40%
Nintendo	44 753	12x	13x	4%	25%
NetEase	41 823	13x	18x	12%	23%
Electronic Arts	30 076	16x	17x	8%	34%
NEXON	13 368	12x	14x	8%	40%
Bandai Namco	10 427	9x	13x	6%	11%
Ubisoft Entertainment	9 788	9x	17x	11%	25%
Square Enix	4 598	10x	11x	7%	15%
CAPCOM	4 089	14x	17x	1%	29%
KONAMI	4 028	6x	10x	3%	18%
Digital Bros	360	12x	20x	26%	14%
Agg.	**753 816**	**18x**	**23x**	**15%**	**28%**

Source: Bloomberg & Redeye Research

Redeye Nordic Gaming Index

We here present a new index over Nordic Gaming companies, the Redeye Nordic Gaming Index. The index consists of all the active gaming companies within the Nordic space and is value-weighted. The big three, Embracer Group, Stillfront Group, and Paradox Interactive, obviously stands for a significant part of the index value, so the performance is highly dependent on their development. We have also excluded MTG as the spin-off of NENT would distort the historical comparability.

REDEYE NORDIC GAMING INDEX

Gaming Index performance



Our first Gaming Report was presented in 2017; therefore, we set the start date on the first of January 2017. Since then, the Redeye Nordic Gaming Index has increased by 171%; during the same period, the broad Nasdaq Composite (consisting mostly of Technology companies) has increased by 72%. The strong performance of the index tells the tale about the underlying growth trends in the industry that we have discussed in this report. Nordic gaming companies have performed exceptionally well during the past three years, and we believe that they will continue to perform well in the future. The index movement during this 2020 shows how the sentiment first was very strong and then shifted down due to the Corona-crisis. After a relatively brief bear-run, the market started to buy stocks within home entertainment that had seen a boost due to the virus outbreak. YTD, the index is up by 50%.

“Netflix for Games”



Last year we focused on “Cloud gaming” and the battle between the Big Tech Names Google, Microsoft and Amazon. From an investor perspective, the business model namely recurring revenue through subscriptions is probably a more interesting topic. Microsoft has been the most aggressive player in this area with its Game Pass. While the game library according to us has gone from interesting to awesome during the last 12 months, the number of subscribers recently reached a milestone of 10 million. With no big investments needed in either games or hardware for customers, the industry can likely continue to grow in the years to come.

Content is King

Last year we stated and illustrated in a positioning scheme the importance for a company to both have the tech, the cloud infrastructure but also as always, the content.



As we wrote Google did not have the content, which remains to be the case. We have tested **Google Stadia** and think the tech is great, so this is clearly not the explanation for the slow start of the service.

If we look at launched services instead Nvidia with its Geforce Now is the big winner. In contrast to what we knew last year, Nvidia both have the tech and the content due to the access of 1500 games from Steam and Epic Games Store at the big launch. In a few weeks, the subscription service reached 1 million subscribers. Some of the highly popular games in the catalog have since then been deleted, despite that, the user base has continued to grow. However, Nvidia Geforce Now is still outsourced game hardware and does not own any of its content. For consumers, it is a bargain for those mainstream gamers unwilling to pay at least SEK 8000 for a gaming computer.

Explosive Growth

Last year we argued that Microsoft and Sony will be the major players and winners in this field the years to come. The most obvious reason is of course their current dominance in the console gaming market alongside Nintendo. Dominating platform owners in the PC-segment (Valve and Epic) and big tech companies such as Amazon, Google, Apple, and Tencent we also expect to be more serious competitors in the future.

In the last 12 months, Microsoft and Sony have stepped up their game in its “Netflix for Games” war. Sony has a subscriber growth of 120% during this period. We expect Microsoft’s Game Pass to have grown around 300% during the same period. While Sony has a more conservative approach with its service were relatively old game titles are added in its subscription library over time Microsoft is offering a far better deal for consumers.



Microsoft has succeeded in this Software as a Service business model before with for example Windows 365 and Azure. For SEK 99 a month, gamers can pick up all Microsoft Studios games at launch. Around 100 games from third-party studios are also available for subscribers.

This offering should be considered a major investment even for Microsoft. To this day third-party games are paid up-front by Microsoft. The paycheck to the publisher is based upon estimated “missed sales”. If we look at some of our covered Nordic gaming companies’ like Embracer and Remedy revenues from subscription services has become a way to “de-risk” lots of revenue. High-quality content and beloved IPs have always been essential for a blooming business and in our view, it is now more important than ever. For example, Embracer’s growing library of games with nearly 120 games under development will be a golden asset in the years to come.

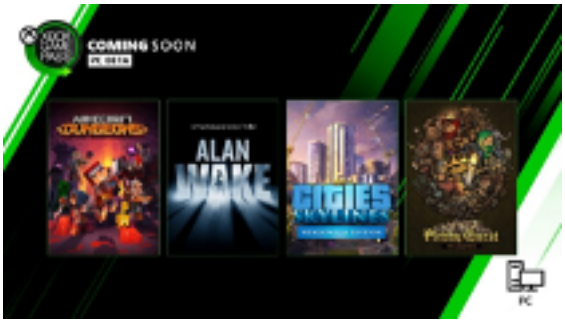
Next Generation of Subscriptions

Microsoft recently announced a milestone for Game Pass reaching over 10 million subscribers. Although this is an important milestone the number of users that is using Microsoft’s online service for games (called Xbox Live) is currently 90 million. With this comparison subscription services of this kind still are in an early stage.

At this time many hardcore console gamers are looking forward to the next generation of consoles arriving by the end of this year. From a business perspective, the new console generation is a different one. Looking only on console sales Microsoft is the big loser in the current generation. Games on the upcoming generation of consoles will also be playable on the current generation of consoles. This means for example Sony will still have a userbase of 110 million when the new console wars start, the userbase is, therefore, more than double as big as Xbox One.

Microsoft has openly communicated the old rivals Sony and Nintendo are not the main competitors in the future, it is instead Google, Amazon, and other big tech companies. Microsoft’s new offering is “Play Everywhere” preferably on Xbox Game Pass. The hardware consumers play on is however of less importance. Microsoft will deliver probably the most impressive cloud gaming service called “xCloud” through its Azure Cloud Architecture. The service has not been launched yet but has already a test audience of hundreds of thousands of users.

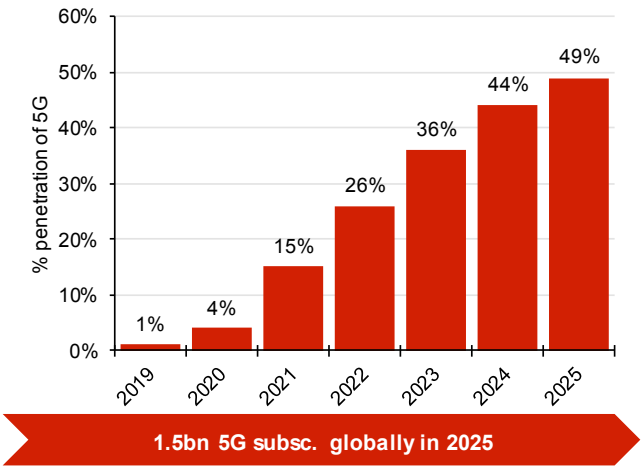
Microsoft’s big bet in the future is to grow its user base. And they plan to do that not by selling consoles primarily but to sell Game Pass. The future of gaming is about establishing a wide install base and creating an ecosystem where people can connect and play together.



It’s a fact that game consoles are historically sold at a loss (Nintendo not included). This trend is expected to continue for both Microsoft and Sony with the new generation. Microsoft hasn’t announced a price for its new console (called Xbox Series X), but the company is expected to lose money on every unit sold and make up the difference with revenue from software, services, and subscriptions.

Phil Spencer (Head of the Xbox Division) has boldly claimed that Microsoft is intent on reaching the 2 billion gamers in the world. That’s an impossible goal if the requirement is for people to own a game console. This is only a possible goal with a software service such as Xbox Game Pass and so-called “Cloud Gaming” for example powered by Microsoft xCloud.

Forecast 5G share of mobile connections in the USA



Source: GSM, Ericsson mobility report, statista

Cloud Gaming: The infrastructure

Cloud Gaming is entering it’s 1.0 version with Microsoft xCloud and other competing technologies. Just like the smartphone needed extensive 3G networks to have a breakthrough the key for true commercialization of Cloud Gaming is the speed of the networks.

Fiber is being widespread, but some key markets like the UK and some parts of the USA are still far behind the countries with the highest fiber penetrations. We believe the coming adoption of 5G could play a vital role in the mass adoption of Cloud Gaming. At peak speed, 5G is roughly 20 times faster than 4G.

5G is expected take-off in 2021 and reach a 50% penetration in the USA by 2025 at the same year roughly 1.5bn subscribers globally are expected to use 5G.

OUR THOUGHTS ABOUT CLOUD GAMING

Casual gamers and early adopters will likely be the only audience that embraces this new technology in the first years. Most early adopters will buy a console or a new PC as well. Many equity analysts estimate PS5 will sell in line with PS4 the first year, which was one of the fastest-selling consoles of all time.

The next generation of consoles will not exactly be a next generation. We will be going to see the boxes act a lot more like smartphones and PCs, with multiple iterations in play; all running slightly improved versions of the same thing. With Sony's user base of more than 110 million (PS4-owners), it seems risky from a business perspective, to bet on an entirely new generation where games will not work on older consoles.

We believe there likely will be three phases in cloud gaming the next 3-5 years, driven in part by the development of the infrastructure with 5G and FTTH (Fiber-To-The-Home). In the first phase, single-player games and some less demanding multiplayer games will find an audience. In the second phase, more competitive and therefore more input lag critical multiplayer games will gain a larger audience. In phase three highly demanding and competitive multiplayer games will find mass-market appeal.

Physical game sales will continue to slowly lose market share in the next generation. But in the west physical games sales is still significant on premium games. Many gamers want to own their consoles and build their own game libraries digital or physical.

As always, the market will be more sluggish than many believe. The big difference is that customers/gamers have more options than ever. The content and games will be the primary focus and the hardware or platform you play the game on will be more secondary. But as always software will drive hardware sales like in previous generations the best exclusive content will sell consoles. Especially Sony and Nintendo will make that happen even in the future. In our opinion, Microsoft has the by far best starting position amongst the American "big three" tech giants and will be the long-term winner in cloud gaming. It will be a closer race between Amazon and Google, but Amazon probably has better conditions to make the business profitable.

The COVID-19 effect

During the worst turbulence on the stock market due to the Corona crisis, Redeye published a short sector report where we pointed out the gaming sector as a “Safe Haven” for investors. Since then stocks have rallied in the sector, often 50-100% in a few months. The gaming sector in particular has also been less volatile than most other sectors. Most gaming companies have reported revenue and earnings above consensus and guided the market that the increased user engagement will likely continue during Q2 at least.

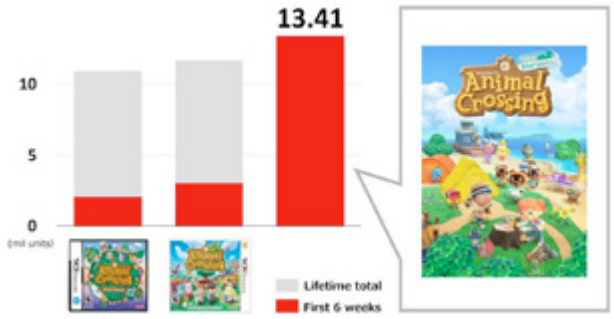
Holiday-season again...

According to leading research data provider "Superdata" April 2020 showed worldwide yearly revenue growth of 17% in digital games. In April North America and Western Europe were mainly in lockdown mode. Those territories dominating the console games segment. Digital console games grew 42% (year-over-year) in April. Mobile and PC games "only grew by 14% and 12% respectively. Microsoft revealed that multiplayer gaming on the Xbox Platform increased by 130% between March and April.

If we exclude China and South Korea were free-to-play games has its stronghold, we believe the revenue growth was considerable as well on PC and mobile. If we look at some of the highest-grossing mobile games in the western markets, they grew around 20% in revenue between March and April. Many of them showed monthly growth rates of around 50%.

Digital Sales Surge

The most impressive achievement during the lockdown comes from Nintendo in our view. Animal Crossing: New Horizons was the fastest-selling digital console game ever. In one month, the game sold 5 million digital copies. And the success did not end after one month. Combined with physical sales Nintendo reported 13.4 million units sold after six weeks.



The game has the perfect mix of social features and offers users to escape reality with a positive feeling afterward during this difficult time. The fastest-selling console game of all time GTA5 (multiplatform release) sold 16 million copies in one week (mostly physical sales). Animal Crossings development budget was clearly a fraction of GTA5, and the IP was not even close as popular, which of course makes the achievement even more impressive. But of course, the "Corona-boost" in this case was significant, it could easily have doubled sales.

Engagement and time spent have increased in big numbers during the lockdowns. The most popular long-running online titles such as Fortnite, League of Legends, GTA5, and Call of Duty have shown all-time-high player numbers. For example, GTA5 Online saw its highest monthly spending on in-game content ever during April. The latest free to play version of Call of Duty (Console and PC) was downloaded 60 million times in two months.

The remake of the beloved Final Fantasy 7 finally released on April 10. The game was the fastest-selling PS4 exclusive game of all-time selling 3.5 million units in three days. With 2.2 million in digital sales (Superdata) digital sales were 63% of total sales, a higher amount than usual. Embracer (Koch Media) was the European physical distributor of the game.

Microsoft's CEO Satya Nadella wrote an interesting statement in commenting the COVID19-effect; "We've seen two years' worth of digital transformation in two months,"

It is relatively obvious we believe that increased user bases and engagement during these months will have positive effects for gaming companies even in the longer-term.

Negative Effects

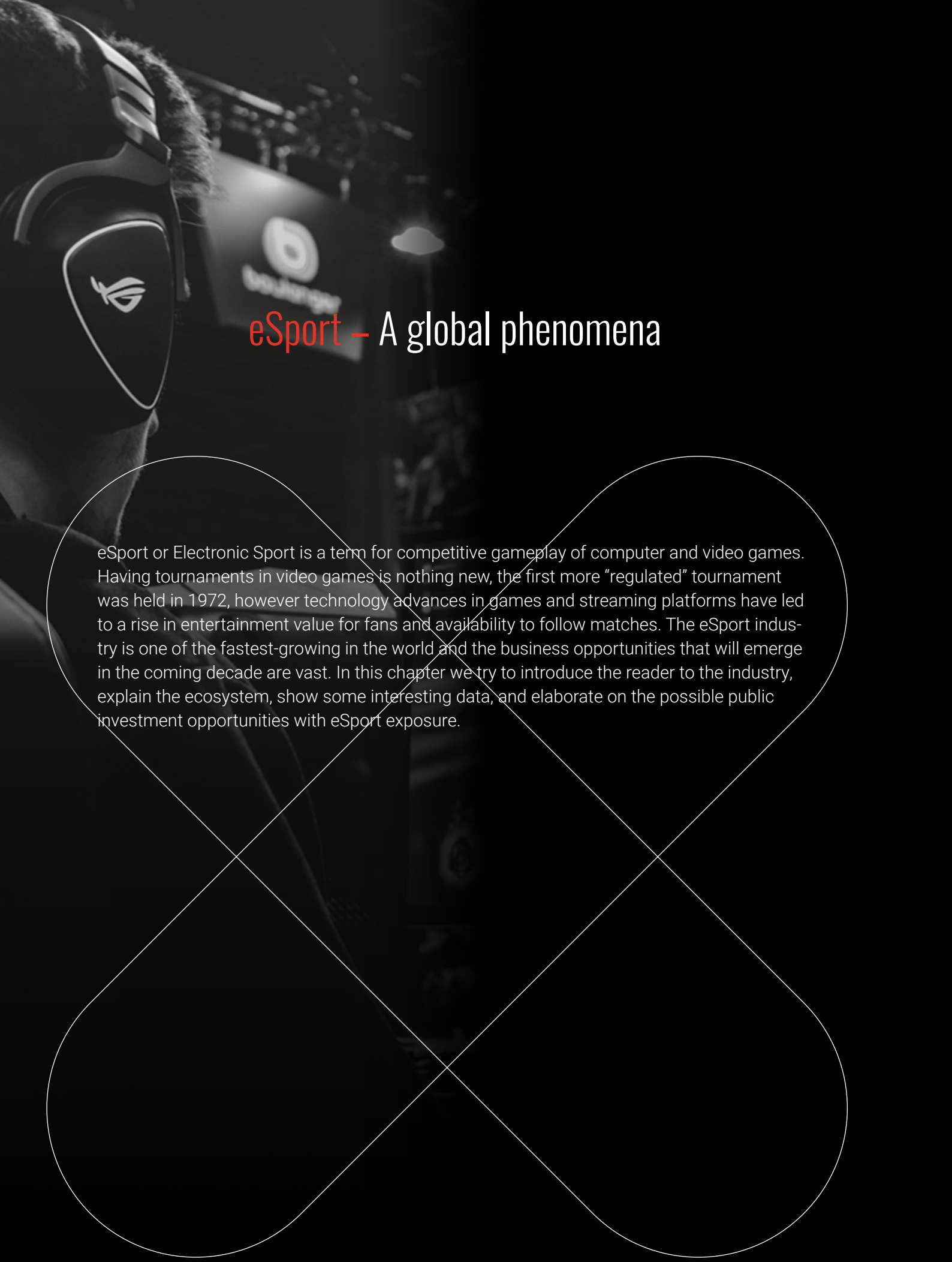
During the Corona-crisis technology stocks have outperformed the overall stock market. And many gaming stocks have outperformed technology stocks. According to us this is a logical outcome and expected. Of course, it is a risk that the sentiment currently is too hot and could have some setbacks in the stock prices when the lockdowns end, and the summer period begins. We have already seen this trend the last weeks on the stock market and it can likely continue, nobody knows.

In the gaming industry, we have seen delays especially on big-budget games and disruptions in hardware production. For example, Nintendo's Switch console has been sold out in most countries in the world for several weeks. Physical game distribution has also seen significant disruptions.

All the major game events have been canceled, which could decrease important meetings for small game studios. With depressed financial markets, it will also likely be harder to access capital for small studios.

Consolidation

Big gets bigger is likely truer than ever. Major publishers (with major IPs) such as Nintendo and Activision-Blizzard strengthen its positions even further during the crises. In the Nordics of course Embracer and Stillfront with an aggressive M&A-strategy have a great position. Small studios with a weak balance sheet will likely often seek comfort in larger groups through acquisitions. Big Tech will also seek diversified revenue from gaming in the coming years we believe. Apple, Google and Amazon but also telecom companies like AT&T and Verizon have relatively deep pockets.



eSport – A global phenomena

eSport or Electronic Sport is a term for competitive gameplay of computer and video games. Having tournaments in video games is nothing new, the first more "regulated" tournament was held in 1972, however technology advances in games and streaming platforms have led to a rise in entertainment value for fans and availability to follow matches. The eSport industry is one of the fastest-growing in the world and the business opportunities that will emerge in the coming decade are vast. In this chapter we try to introduce the reader to the industry, explain the ecosystem, show some interesting data, and elaborate on the possible public investment opportunities with eSport exposure.

Definition

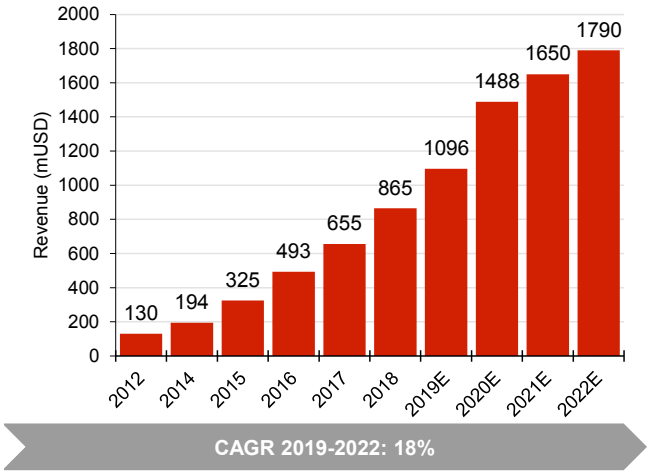
eSports is defined as a competitive and professional gameplay of computer and video games. Not every game is an eSport. Most eSports are multiplayer games and played in teams. The team dynamic makes the games more enjoyable to watch for the audience. Every game franchise that is classified as an eSport shares the characteristics of having a highly strategic-, meta- and technical gameplay and is spectator friendly. The most popular genres for eSport titles are RTS (Real-Time Strategy), ARTS (Action Real-Time Strategy), MOBA (Multiplayer Online Battle Arena), FPS (First Person Shooter), Sports and Fighting.

The pro-gamers that compete in the big leagues are employed by eSport organizations, have a salary, train most often over 10 hours a day, and earns a share of the prize money their team wins.

Growth rate and size

eSports is the fastest growing sports industry in the world. During 2019 the estimated global revenue of the sector amounted to USD 1096m

eSport global revenue (mUSD)



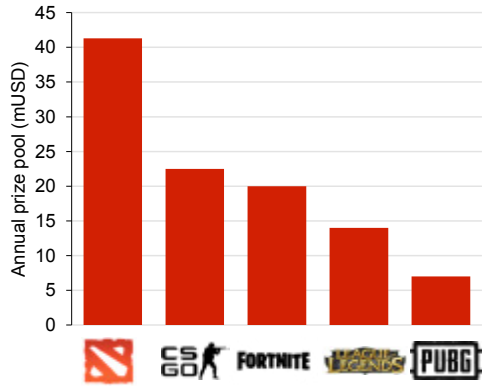
Source: statista

and is expected to grow more than 18% annually over the coming years.

Top games

The top eSport titles during 2018 both in terms of prize pools where Dota 2 (ARTS), Counter-Strike: Global Offensive (FPS), Fortnite (Shooter), League of Legends (MOBA), and PUBG (Shooter).

Highest prize pools per eSport titles 2018



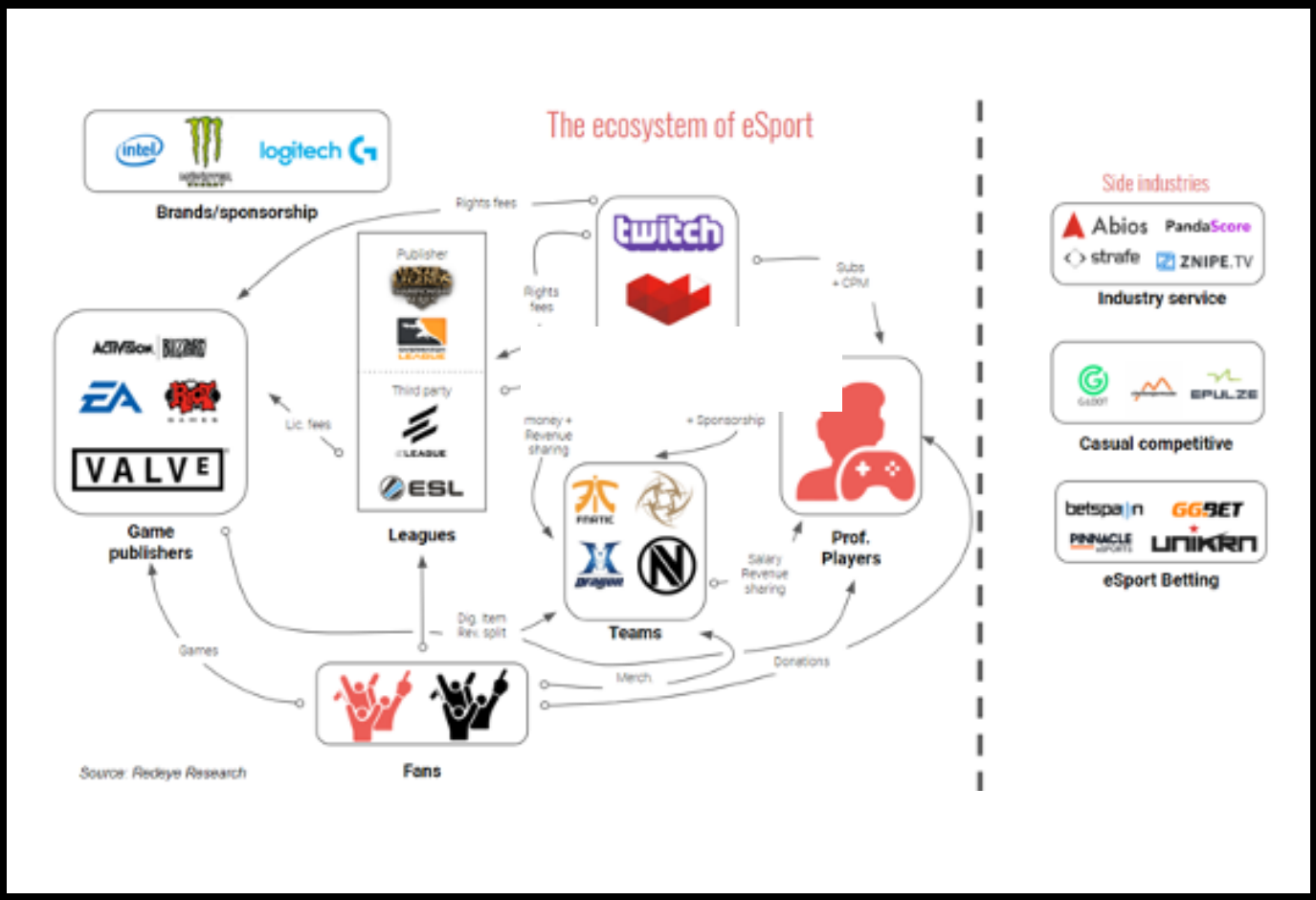
Source: esportearnings

Most notable was the rise of the Shooter/Battle Royale titles Fortnite and PUBG. These two games had notable sizes of prize pool during last year but were not in the top 10.

Epic Games, the creator of Fortnite, announced in May 2018 that they would commit USD 100m in prize money for Fortnite eSport tournaments during 2018-19. By that, we expect to see an even higher prize pool during next year that possibly could exceed Dota 2

The ecosystem of eSports

The ecosystem of the eSports industry is both vast and evolving. Here we try to explain how the money and value flow within the value chain and the key stakeholders that exist. We also briefly describe some emerging side industries which are dependent on the primary industry but are growing to a noteworthy size on their own.



Game publishers

The game publishers create and distribute the games. As the publishers own the IP rights, all stakeholders in the ecosystem are dependent on the approval to broadcast, play, or host competitions. These are one of the main differences compared to traditional sports as no one "owns" football or ice-hockey. The IP holders yield the most power and influence within the ecosystem. Some publishers also act as league operators.

Publisher's main income comes

- Fans who buy games and content
- License fees from third party league operators
- Rights fees from different platforms

Leagues/Tournaments

Leagues are run by either the game publishers or third party event organizers. The event organizers gain permission and licenses to broadcast the competitions from the game publishers.

Leagues main income comes from:

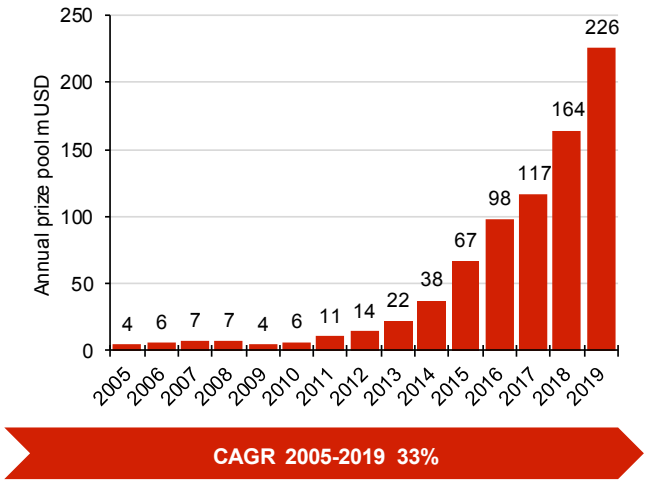
- Sponsors for the events
- Rights fees from platforms
- Ticket sales

Teams and players

The teams and players are of course central to the eSport ecosystem. A broadcasting game session is a natural part of their career, so players get sponsored by brands. Some teams recruit influencers that only do streaming.

eSport teams are run like an enterprise and most often have multiple teams in different sports. The prize money is an essential part of the income for players and the teams as well. The growth of the prize pool is vital for the eSport industry as it will lead to even further professionalism among players and teams.

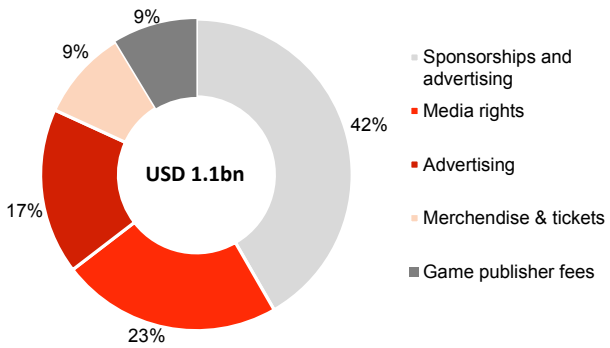
eSport prize pools 2005-2019 (mUSD)



Source: New zoo, statista, esportearnings.com

The global prize pool amounted to USD 226 million during 2019. The prize pools have grown at an annual rate of 33% since 2005.

eSport markt revenue by segment (2019)



Source: statista

Even though the prize money is important the bulk of the income for teams comes from sponsorships. The team's sign brand deals with activation on jerseys, in-stream promotional content, and hardware exclusivity deals.

Teams and players main income comes:

- Player salary
- Sponsorship deals
- Prize pools
- Digital sales split
- Donations
- Merchandise
- Income from streaming platforms

Brands and advertisers

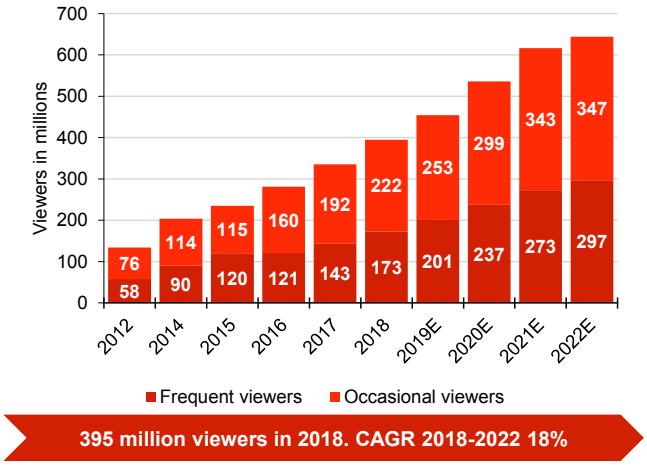
The most significant revenue contributors within the ecosystem are brands and advertisers with sponsorships.

The brands sponsor teams, make hardware deals, buy screen space at streaming platforms, have influencers, buy name placements at tournaments, and more. The increased viewership of eSport is the primary driver of advertising growth.

Fans

The increasing fan base of eSport is the main driver of the revenue within the industry and is the reason why many brands have taken an interest in eSports. The estimated amount of eSport viewers in 2019 amounted to 454 million and is expected to continue to grow in the coming years.

eSport viewers in millions and type



395 million viewers in 2018. CAGR 2018-2022 18%

Source: statista

The fans consume eSport both live and online. Many fans, but not all, play games, support teams (often multiple teams), consume ads on streaming platforms for both their favorite streamers and competitions, purchase merchandise, and are exposed to sponsor's products through brand's marketing efforts. Each game most often has a unique community. Many fans participate in direct dialogue with stakeholders through chat systems and forums.

Platforms

A dominating player within the ecosystem is the streaming networks and social media platforms. The most notable is Twitch but lately, the platform is facing competition from YouTube Gaming, Facebook, and more.

The platforms distribute both live and video-on-demand content. The networks and sites can often sponsor teams, players, tournaments, and leagues. Content is king for the platforms, and they work hard to get exclusive broadcast rights. The platforms do also to some degree make a direct team or player sponsorships to obtain streaming rights.

Platforms main income comes:

- Fans who view streams
  - o Selling of ads
  - o Content integration
  - o Premium subscribers

Notable side industries

Thanks to the rise of eSport some noteworthy side industries have emerged. Some of these are symbiotic with the primary industry so it can sometimes be hard to distinguish.

Industry Services

Different type of companies that offer service to the industry has emerged their offering; news, niche platforms, game statistics, result tracking, data feed, AI player-coaches, and more. Some notable startups within this sub-industry: Abios, Strafe, PandaScore, Znipe.TV.

Casual Competitive

Most players are not professionals and there is an emerging industry that tried to bring the eSport experience to the casual players. Digital tournaments with friends, peer to peer match staking, hobby leagues with prices pools are starting to take form. Some notable startups within this sub-industry: G-LOOT, Challengermode, EPULZE.

eSport Betting

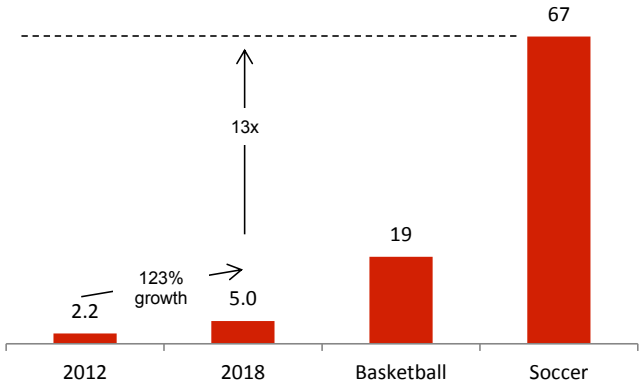
Within any sport, there is almost always a significant betting market. eSports is no different. Most eSport games make a perfect opportunity for live betting and different type of combination bets. Historically a type of "black market" for Skin betting has emerged. However, this is shifting to a regulated cash betting market as Valve continues to try and hinder skin betting sites through API closedowns, etc.

Today the Cash betting on eSport is still in its infancy, but it's expected to grow vastly over the coming years. Some notable startups within this sub-industry: Unikrn, Betspawn, GG.bet

The opportunities of tomorrow

The eSport industry is still young and evolving; business opportunities will both rise and fall. We see significant potential in both related side industries and to in the eSport business directly. One way to visualize the revenue potential is to compare the monetization per fan to more traditional sports like Basketball and Soccer. eSport revenue per fan has grown 123% since 2012 and now amounts to roughly 5.0 USD per "hardcore fan," the growth is impressive but is still about 13x lower than Soccer.

Revenue per Fan (USD)



DISCLAIMER

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Investment Summary
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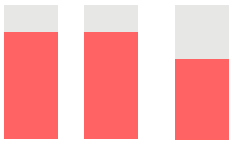
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Company page
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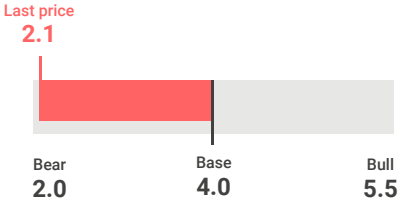
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June 3 2020

Redeye Rating

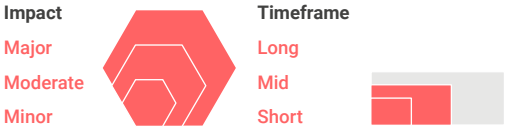
COMPANY QUALITY



FAIR VALUE RANGE



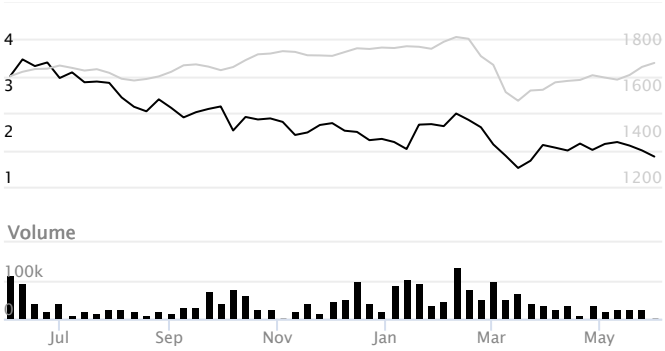
CATALYST POTENTIAL



Turn page for catalyst specifics

Snapshot

Atari SDB
OMXS30



Marketplace	First North Stockholm
CEO	Frédéric Chesnais
Chairman	Frédéric Chesnais

Share information

Share price (SEK)	2.1
Number of shares (M)	256.1
Market cap (MSEK)	525
Net debt (MEUR)	-10

Analyst



Kristoffer Lindström
kristoffer.lindstrom@redeye.se

Conflict of interests
Kristoffer Lindström owns shares in Atari SDB: No
Redeye performs/have performed services for the Company and receives/have received compensation from the Company in connection with this.

Financials

	2018	2019E	Redeye Estimates 2020E	2021E	2022E
Revenue, MEUR	21	33	37	40	44
Growth	*14.4%*	*58.3%*	*14.8%*	*5.6%*	*10.3%*
EBITDA	6	7	10	12	16
EBITDA margin	*27.7%*	*21.4%*	*27.8%*	*30.3%*	*37.0%*
EBIT	3	4	5	6	9
EBIT margin	*12.1%*	*12.4%*	*13.9%*	*15.6%*	*20.7%*
Pre-tax earnings	2	3	5	6	9
Net earnings	2	3	5	6	9
Net margin	*9.3%*	*9.6%*	*13.9%*	*15.6%*	*20.7%*
Dividend/Share	0.00	0.00	0.00	0.00	0.00
EPS adj.	0.01	0.01	0.02	0.02	0.04
P/E adj.	46.4	2.3	1.4	1.2	0.8
EV/S	3.7	-0.1	-0.2	-0.3	-0.5
EV/EBITDA	13.3	-0.4	-0.8	-1.1	-1.5

Last updated: 2020-01-14

Owner	Equity	Votes
Ker Ventures LLC (Frédéric Chesnais)	19.5%	39.0%
Alexandre Zyngier	3.7%	7.4%
Financiere Arbevel SAS	2.5%	5.0%

Company description

Atari is probably the most well-known brand within the gaming as it launched the industry as we know it today. Atari was founded in 1972 and was originally a maker of arcade games. The company launched the first true home video console named Atari 2600 in 1977, which was a massive success. The top 10 franchises have had a historical revenue of more than USD 2bn. Atari has over 200 titles under its umbrella. Some of the most iconic games include Pong, Asteroids, Centipede, Tempest and Missile Command.

Investment case

- An untapped IP portfolio – The vast majority of Atari's IP portfolio has not yet been brought into modern gaming mediums. We view the success of the Roller Coaster Tycoon (RCT) IP as a proof of concept.
- Making the most of the Atari brand – Atari is a well-known brand, primary among the older demographic. The company is capitalizing on the brand awareness through expanding to new verticals, like Casino, and through smart licensing partnerships.
- The VCS is under the radar – We find that the market has forgotten about the VCS a bit, likely due to some delays of the launch.

An untapped IP portfolio

Atari has a massive portfolio of game franchises which still lies almost untapped. We believe the market is yet to understand just how large the opportunity is for the Atari IP portfolio. The RollerCoaster Tycoon (RCT) was the first game series that was brought back to life under the new management that took over the company in 2013, since then the new games have generated an income of EUR 33m+, which have extended the lifetime income of the franchise to about EUR 230m, i.e., an extension of 16%+ over just a few years. We believe that the success for RCT is true proof of concept that an older game can work very well in a newer medium, like the mobile. Atari's ten top franchises had generated about EUR 2bn in lifetime income. The potential if the success for the RCT IP can be mimicked to some degree for one of the larger franchisees cannot be understated.

Currently, we know of a game for the Asteroids IP that is in production and also for the well-known brand series Pong. We find it likely that that at least one "new" IP can reach the same type of income level as the RCT franchise over the coming years.

Making the most of the Atari brand

Atari is a well-known brand. In a study conducted by E-Pool in 2010 63% of the people aged between 25 and 54 knew of the brand. In the younger demographic the awareness was about half of that. Atari is continuously working on creating more modern games and increase their awareness among young gamers, but they also capitalize on the older audience where the awareness is strong by launching products that fit this demographic.

Atari is also capitalizing on its brands' power through its Partner Segment where the company most often receives equity in companies without using any cash. These types of bets might be long-shots, but the company is also not taking any financial risk. The potential reward could be huge with extremely limited risk.

The VCS is under the radar

Estimating sales for the VCS is of course extremely hard, it will be easier when the first customer reviews and test are in. However, we find that the market has almost forgotten the VCS and the potential it holds. The Atari "box" can be viewed as a "mini-PC" at an attractive price-point. If the product has the high quality the market demands could be substantial in an era of game streaming and digital distribution of games.

Management with skin in the game

We view the ownership structure of Atari as highly favorable with the CEO and Chairman also being the largest shareholder.

Counter-thesis (Bear points)

- **Brand dilution** – Entering new verticals like Casino or different ventures is a great way to capitalize on the Atari brands. However, it must always be done with strategic caution as a misstep could dilute the brands' value and power.
- **Retro to modern is hard** – It's no easy task to take a retro classic and put it into a modern medium or updated graphics. We are rather certain that PONG or Asteroids games could have been created and at least be modestly successful sole due to their brands, however, Atari wants to make it right and sets the bar high. The retro audience is also relatively picky, and the brand can get hurt if a new game does not have the right feeling.
- **Title risk** – As always with gaming companies there is significant title risk when it comes to launching a new game.

Catalyst types

VCS release above expectations

It seems like the market has almost fully ignored the VCS and the potential it holds. The VCS can be viewed as a form of mini-PC at an attractive price. Our base case assumes sales of about 250k units over the next four years, compared to current annual sales of 500k Atari Flashbacks, which retail at around USD 80.

An acquisition target

We view Atari as an attractive acquisitions target thanks to the extensive IP portfolio, strong balance sheet, profitability, and the loss-carry forwards.

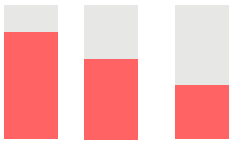
EG7 EG7

Company page
https://www.redeye.se/company/eg7

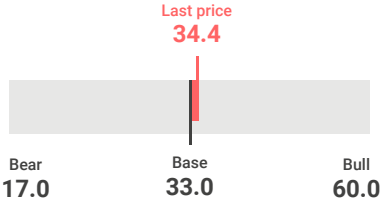
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Redeye Rating

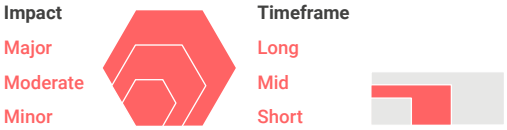
COMPANY QUALITY



FAIR VALUE RANGE



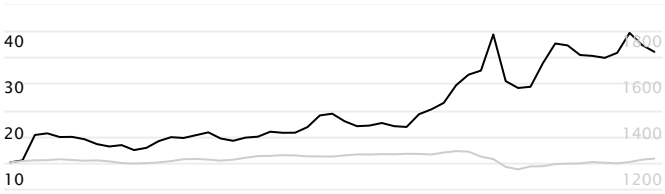
CATALYST POTENTIAL



Turn page for catalyst specifics

Snapshot

EG7
OMXS30





Marketplace	First North Stockholm
CEO	Robin Flodin
Chairman	Alexander Albedj

Share information

Share price (SEK)	34.4
Number of shares (M)	35.0
Market cap (MSEK)	1,204
Net debt (MSEK)	15

Analyst



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Conflict of interests
Kristoffer Lindström owns shares in EG7: No
Redeye performs/have performed services for the Company and receives/have received compensation from the Company in connection with this.

Financials

	2018	2019	Redeye Estimates 2020E	2021E	2022E
Revenue, MSEK	73	152	690	799	861
Growth	*>100%*	*>100%*	*>100%*	*15.8%*	*7.7%*
EBITDA	6	3	119	158	177
EBITDA margin	*8.7%*	*2.0%*	*17.2%*	*19.7%*	*20.6%*
EBIT	6	-23	33	67	84
EBIT margin	*7.8%*	*Neg*	*4.7%*	*8.4%*	*9.7%*
Pre-tax earnings	6	-28	6	41	70
Net earnings	4	-28	2	12	20
Net margin	*5.4%*	*Neg*	*0.3%*	*1.5%*	*2.4%*
Dividend/Share	0.00	0.00	0.00	0.00	0.00
EPS adj.	0.26	-0.90	0.05	0.33	0.58
P/E adj.	43.0	-21.4	685.1	104.8	60.3
EV/S	2.1	6.2	2.0	1.6	1.4
EV/EBITDA	24.4	304.3	11.4	8.2	6.8

Last updated: 2020-04-22

Owner	Equity	Votes
Robin Flodin	12.2%	12.2%
Rasmus Davidsson	12.2%	12.2%
Alan Hunter	7.5%	7.5%
Ben Granados	7.5%	7.5%
Consensus Asset Management AB	6.5%	6.5%
Dan Sten Olsson med familj och stiftelse	6.4%	6.4%
Johan Svensson	6.2%	6.2%
Alexander Albedj	5.6%	5.6%
Länsförsäkringar Fonder	4.6%	4.6%
James Cato	4.4%	4.4%

Company description

EG7 is a Swedish company active within the gaming industry. It originated as a game development company within console gaming specialized in first-person action/RPG game. After two major acquisitions in 2019 EG7 has operations within marketing (Petrol), game publishing (Sold Out) and game development (Toadman Core). The company was founded in 2013 and has grown rapidly to now employ roughly 195 people spread out in Stockholm, Los Angeles, Oslo, Berlin, Penryn (England) and Tver (Russia).

Investment case

- Stable cash flow gives many shots at goal
- Marketing expertise in-house
- Skin in the game
- M&A across the value chain

EG7 (earlier Toadman Interactive) has transformed itself from a small gaming studio focused on work-for-hire to a presence across almost the whole gaming value chain. In our view, management is building a highly attractive operation with a clear focus on cash flow generation in combination with game development's significant return potential.

Stable cash flow gives many shots at goal

Gaming is a volatile business where success depends on how well games releases perform. EG7 differs from most listed gaming companies by its stable cash flow from work-for-hire/financed projects, marketing consultancy (Petrol) and publishing (Sold Out). This is then reinvested into game development projects that could produce significant returns. Assessing games' potential success before launch is almost impossible, but Toadman's strong financials enable it to manage title risk as its future does not depend on any single title. This structure gives it the ability to take many 'shots at goal' and increases the likelihood of a commercial success.

Marketing expertise in-house

Petrol's services are highly sought after in gaming with over 50 clients including projects like 'Call of Duty', the highest-grossing game series on console. This world-class marketing expertise gives Toadman a valuable asset and advantage over many peers that should boost its prospects of successful releases – as well as lowering its marketing costs. Petrol generates annual revenues of SEK 179m with an expected 3-year CAGR of 7% and an EBITDA margin of 14-15%.

Skin in the game

58% of EG7 is owned by management, the board and other key employees, which shows that its leadership is highly incentivized to generate shareholder returns; we find this as undoubtedly positive. We genuinely prefer what we call "Owner Operators", namely a management team that owns a substantial stake of the company. We regard Robin Flodin, founder, and CEO, as crucial for EG7's future success. He is the largest shareholder with over 12% of the capital. Fatshark, the renowned Swedish gaming studio, is both an owner and a close partner on work-for-hire deals.

M&A across the value chain

EG7 has an active M&A agenda with the aim of expanding across the gaming value chain. The company has used SEK 220m of its SEK 500m bond program. With an underlying pro forma EBITDA of some SEK 50m following the acquisition of Sold Out, there is still significant room to increase leverage. It is clear that we will see more acquisitions to strengthen EG7, either by filling current gaps or reinforcing current business areas. EG7 focuses on not overpaying for companies and has historically paid an EV/EBIT multiple of about 6x for their acquisitions. Compared to standard gaming valuations, this is low. EG7 has strengthened its M&A team significantly during 2019. We view the recruitment of COO Christopher Bergstresser as key in this.

Counter-arguments

Investors should also consider the following counter-arguments to our case:

- **Title risk** – Although EG7 has sought to build a broad portfolio of games, it nonetheless faces title risk (particularly on larger projects) like all of its gaming peers. Disappointing releases could dampen investors' enthusiasm and hurt the company's financials. Nonetheless, EG7 is protected by more stable cash flow than other small gaming companies thanks to its consulting, marketing agency and game publishing arms.
- **Somewhat unproven M&A strategy** – Growing through acquisitions always involves the risk that targets fail to add shareholder value. As EG7 is a rather young company, it's still too early to judge all of its acquisitions – especially the most recent. Investors should focus on tracking their performance during the coming years to judge management's capacity to add value through M&A.
- **K3 and M&A is a bad match** – Despite it not affecting cash flow, K3 accounting is a bad fit for a company conducting a lot of M&A. As reported profits will be artificially low compared to underlying earnings power, this can impact valuation and market perceptions of the company.

Catalyst types

EvilvEvil release and news low

EvilvEvil is the largest game project in EG7's history, with a development budget in the region of EUR 15m. The game is expected to be released in Q3-Q4'20. News flow regarding the title and, obviously, the release is the most significant catalyst we see during 2020 for EG7.

Bond re inancing or new program

We view 12% interest as too high for a company with EG7's high and stable cash flows. Its bond was issued prior to the acquisition of Sold Out and Petrol, which changed the business entirely. A refinancing or a new program at a lower rate is likely and would be positive.

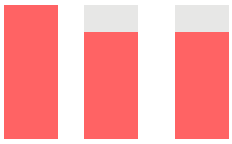
Embracer Group EMBRAC B

Company page
https://www.redeye.se/company/embracer-group

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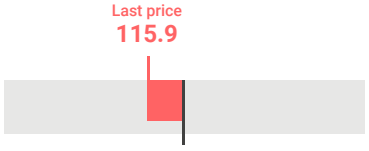
Redeye Rating

COMPANY QUALITY



People Business Financials

FAIR VALUE RANGE



Bear **65.0** Base **130.0** Bull **170.0**

CATALYST POTENTIAL





Turn page for catalyst specifics

Snapshot

Embracer Group
OMXS30



Marketplace	First North Stockholm
CEO	Lars Wingefors
Chairman	Kicki Wallje-Lund

Share information

Share price (SEK)	115.9
Number of shares (M)	372.4
Market cap (MSEK)	43,156
Net debt (MSEK)	1,290

Analyst



Kristoffer Lindström
kristoffer.lindstrom@redeye.se

Conflict of interests
Kristoffer Lindström owns shares in Embracer Group: Yes
Redeye performs/have performed services for the Company and receives/have received compensation from the Company in connection with this.

Financials

	2018	2019	Redeye Estimates 2020E	2021E	2022E
Revenue, MSEK	5,754	5,250	7,390	8,721	10,269
Growth	*>100%*	*-8.8%*	*40.8%*	*18.0%*	*17.8%*
EBITDA	1,592	1,822	3,210	3,665	4,487
EBITDA margin	*27.7%*	*34.7%*	*43.4%*	*42.0%*	*43.7%*
EBIT	575	345	-79	533	1,096
EBIT margin	*10.0%*	*6.6%*	*Neg*	*6.1%*	*10.7%*
Pre-tax earnings	542	403	-116	490	1,046
Net earnings	359	293	-125	368	785
Net margin	*6.2%*	*5.6%*	*Neg*	*4.2%*	*7.6%*
Dividend/Share	0.00	0.00	0.00	0.00	0.95
EPS adj.	3.50	0.83	-0.34	0.99	2.11
P/E adj.	59.9	113.2	-717.4	244.4	114.4
EV/S	3.2	6.1	5.5	4.8	3.8
EV/EBITDA	11.7	17.6	11.3	9.5	7.2

Last updated: 2020-05-26

Owner	Equity	Votes
Lars Wingefors	29.0%	42.2%
S3D Media Inc	10.8%	14.6%
Cbny-Citibank N.A.-Private Bank	8.6%	4.7%
Swedbank Robur Fonder	7.1%	3.9%
Erik Stenberg	6.3%	9.1%
Handelsbanken Fonder	4.3%	3.0%
Didner & Gerge Fonder	3.1%	1.7%
Första AP-fonden	2.9%	1.6%
State Street Bank And Trust co	2.3%	1.2%
CMB Holding AB	2.2%	3.1%

Company description

Embracer Group is a gaming company focused on developing and publishing games on the global market. The company has since Lars Wingefors founded the company in 2011, established a strong platform and product portfolio under high growth and profitability. The Group has an extensive catalog of over 160 owned franchises, such as Saints Row, Goat Simulator, Dead Island, Darksiders, Metro, MX vs ATV, Kingdoms of Amalur, TimeSplitters, Satisfactory, Wreckfest and World War Z amongst many others. Embracer Group has a global presence through its five operative groups: THQ Nordic GmbH, Koch Media GmbH/Deep Silver, Coffee Stain AB, Amplifier Game Invest, and Saber Interactive.

Investment case

- A large part of the IP portfolio is still not generating any income, this will change in the coming years
- Embracer's IP portfolio grew significantly following acquiring Koch Media, Saber Interactive and more acquisitions, the asset care possibilities and thus value enhancement is vast
- Owner operator with a highly skilled management team with the right focus on long-term value creation
- The core strategy is to acquire IPs at depressed prices and then enhancing their value

The acquisitions of Koch Media and Saber Interactive in particular are prime examples of Embracers' Group's acquisition strategy and why we continue to be positive to the case. We believe that the market is still to fully grasp the underlying value and cash flow generating capabilities of Embracer's growing IP portfolio, which was enhanced to a significant degree following the purchase of the European publisher.

A large part of the asset value is still untapped

The company showed significant growth during FY20, but a large part of the IP portfolio is still not generating any income. Development projects including a few AAA will be released in the years to come. The amount of development budget that is released in FY21 is expected to double compared to FY20. This will take revenues and the profits to entirely new levels.

Embracer's IP portfolio grew significantly during the past years with acquisitions like; Koch Media, Saber Interactive, Milestone, Warhorse Studios, Coffee Stain, and more. We believe that the company will use its asset care expertise and unlock a lot of value from the long tail part of the game asset in the coming years.

Focus on long-term value and buying cheap

Embracer Group is what we like to call an owner-operator company where the management team owns 40%+ of capital, has extensive experience from the industry and is highly committed to building “something big.” We believe there should be a premium on the valuation because of the strong shareholder focus

Embracer's core strategy is to acquire IPs at depressed prices and then enhancing their value. We view the Koch Media acquisition as a prime example of this approach. This focus will continue to keep risks at low levels and create significant investment returns for shareholders going onwards

Many public companies suffer from a short-term quarterly focus; this could not be further from the case when it comes to Embracer. We find the long-term thinking as a distinct advantage; we also believe this way of business will further increase following the Koch acquisition as the company will be less dependent on single releases for cash flow.

Our forecast, and therefore also our DCF valuation, does not factor in possible future value-adding acquisitions of IPs or companies, but it is a fact that Embracer will continue to acquire, and will do so with bravura.

Counterarguments (Bear-points)

- **Title risks of larger releases** – Despite Embracer's extensive portfolio there is always some title risk when releasing larger Disappointing releases and/or reviews could dampen investors’ enthusiasm and hurt the company’s financials.
- **Rising competition in bidding for acquisitions –** As the Group is entering a new level as a company, so will the future acquisitions in terms of size and target reputation. Going from an unknown player to a more established company might make it harder to find cheap deals.
- **Management is paramount –** Just as much we love a strong and committed management team, it is also a fact that relying on a few key individuals also poses a risk.

Catalyst types

More value adding acquisitions

Embracer Group has a strong focus on acquiring IPs, franchises, and companies at low prices. They can do this by utilizing one of the best characteristics of a great investor; patience. Larger acquisitions of well-known IPs could and should enhance the valuation of the company.

AAA titles from Deep Silver and secret project announced

Deep Silver was a part of the Koch Media acquisition. Two studios within Deep Silver is currently developing two AAA titles, one is a new Saints Row game and the other one is unknown, but they will be released in FY21. The announcement of the unknown game would enhance the visibility of the IP portfolio and likely increase the valuation. One of the large development projects from THQ Nordic remains undisclosed. This title has the same type of budget as Darksiders 3 have, which should imply a similar sales potential.

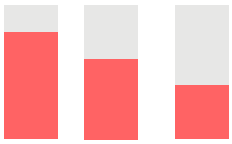
Flexion Mobile FLEXM

Company page
https://www.redeye.se/company/flexion-mobile

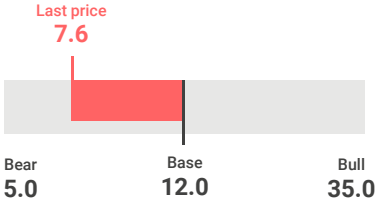
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Redeye Rating

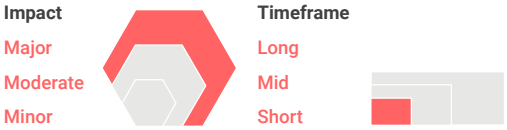
COMPANY QUALITY



FAIR VALUE RANGE



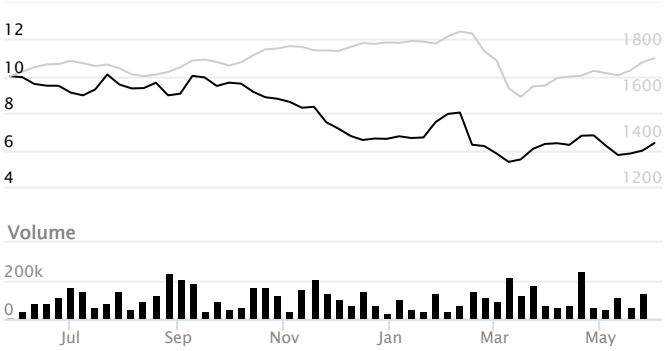
CATALYST POTENTIAL



Turn page for catalyst specifics

Snapshot

Flexion Mobile
OMXS30



Marketplace	First North Stockholm
CEO	Jens Lauritzson
Chairman	Carl Palmstierna

Share information

Share price (SEK)	7.6
Number of shares (M)	41.5
Market cap (MSEK)	314
Net debt (MGBP)	0

Analyst



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Conflict of interests

Tomas Otterbeck owns shares in Flexion Mobile: Yes

Redeye performs/have performed services for the Company and receives/have received compensation from the Company in connection with this.

Financials

	2018	2019E	Redeye Estimates 2020E	2021E	2022E
Revenue, MGBP	6	9	15	22	30
Growth	*>100%*	*42.2%*	*62.0%*	*47.0%*	*38.0%*
EBITDA	0	-2	-1	1	2
EBITDA margin	*Neg*	*Neg*	*Neg*	*3.0%*	*7.3%*
EBIT	0	-2	-2	-1	1
EBIT margin	*Neg*	*Neg*	*Neg*	*Neg*	*2.8%*
Pre-tax earnings	0	-2	-2	-1	1
Net earnings	0	-2	-1	-1	1
Net margin	*Neg*	*Neg*	*Neg*	*Neg*	*2.1%*
Dividend/Share	0.00	0.00	0.00	0.00	0.00
EPS adj.	-0.01	-0.05	-0.04	-0.01	0.02
P/E adj.	-91.2	-10.9	-15.8	-39.7	36.3
EV/S	5.0	2.3	1.5	1.0	0.7
EV/EBITDA	-69.9	-9.3	-30.4	34.4	9.1

Last updated: 2020-02-25

Owner	Equity	Votes
Mobile Sensations Ltd	28.2%	28.2%
Carl Palmstierna	9.1%	9.1%
Zallaz SA	8.1%	8.1%
Sjätte AP-fonden	4.6%	4.6%
Claes Kalborg	0.3%	0.3%
Andreas Mac Mahon	0.2%	0.2%
Niklas Koresaar	0.1%	0.1%

Company description

Flexion offers a technology-driven distribution service for free-to-play Android games that allows game developers to distribute their products with ease through multiple channels, such as Amazon, Samsung, and OneStore, and via leading regional distribution channels. Flexion's cloud-based service platform is used to manage functionality – user experience, authentication, authorisation, payments, and store independence features – in distributed games. Flexion operates in the alternative distribution market for Android games. It targets growing distribution channels outside Google Play and China. Its base is the top 400 grossing games globally.

Investment case

- Content is king – Like all platform companies, Flexion needs blockbuster content. During the last year the company has signed contracts with some of the global market's highest grossing games. Their network effects are most important – strengthening Flexion's future market position.
- Duopoly in doubt – With content giants such as Netflix, Spotify and Epic Games neglecting Apple's and Google's mobile marketplaces, a major change is under way. As Flexion is particularly suited to a more fragmented market, this shift could create new opportunities such as strategic partnerships.
- Diversified portfolio with leverage – Unlike other companies in mobile gaming, Flexion is able to control its risk – for example, by choosing games with proven monetization and replacing those that do not perform. Moreover, its primary strategy is organic growth, not user acquisition.
- Game of scale – While Flexion is a first mover, dominance of its area is likely be settled over the next 2-3 years. Flexion's business model has many similarities to Spotify's. If Flexion succeeds in gaining a market position with a sustainable competitive advantage the reward could be notable.

Flexion is a potential Spotify of gaming. With contracts with leading mobile games newly in place and its service platform now fully established, the company is set for explosive growth in the coming years.

Valuation – Going forward, revenue growth will be most important for the stock's valuation. Our base case anticipates explosive growth over the next three years with a CAGR of more than 50%. This reflects Flexion's first-mover opportunity and its growth from a low base.

Challenges

Small player - Flexion has an attractive first mover advantage in a niche where no major player sees a sufficiently large opportunity. If western app distribution markets become as fragmented as those in Asia it will benefit Flexion. In the longer term, though, the company is likely to either lose its market position or be acquired.

Consolidation - For the last 10 years Apple and Google have had a duopoly in western markets, where Flexion generates most of its revenues (84%). The market is becoming more fragmented, but in the longer term it is likely that 3-4 big players will dominate. In this scenario, Flexion's value to developers might decline.

Cost of growth - In some of Flexion's latest agreements with top grossing mobile games the company has offered a minimum guarantee, which adds risk. Even with proven success on the dominant app stores, it could still underperform in other channels.

Catalyst types

Channels

Signing more channels (mobile app stores).

Games

Signing more games.

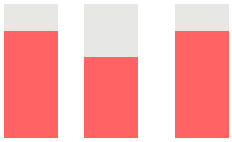
G5 Entertainment G5EN

Company page
https://www.redeye.se/company/g5-entertainment

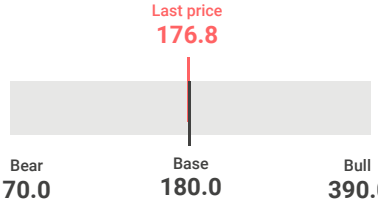
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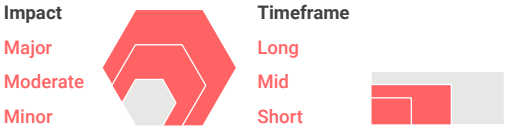
COMPANY QUALITY



FAIR VALUE RANGE



CATALYST POTENTIAL



Turn page for catalyst specifics

Snapshot

G5 Entertainment
OMXS30



Marketplace	NASDAQ Stockholm
CEO	Vladislav Suglobov
Chairman	Petter Nylander

Share information

Share price (SEK)	176.8
Number of shares (M)	9.3
Market cap (MSEK)	1,641
Net debt (MSEK)	-248

Analyst



Tomas Otterbeck
tomas.otterbeck@redeye.se

Conflict of interests

Tomas Otterbeck owns shares in G5 Entertainment: Yes

Redeye performs/have performed services for the Company and receives/have received compensation from the Company in connection with this.

Financials

			Redeye Estimates		
	2018	2019	2020E	2021E	2022E
Revenue, MSEK	1,450	1,233	1,347	1,547	1,732
Growth	*27.7%*	*-15.0%*	*9.3%*	*14.8%*	*12.0%*
EBITDA	244	167	225	256	322
EBITDA margin	*16.9%*	*13.5%*	*16.7%*	*16.6%*	*18.6%*
EBIT	143	52	91	119	144
EBIT margin	*9.9%*	*4.2%*	*6.8%*	*7.7%*	*8.3%*
Pre-tax earnings	143	52	91	119	144
Net earnings	122	43	73	96	115
Net margin	*8.4%*	*3.5%*	*5.4%*	*6.2%*	*6.6%*
Dividend/Share	2.50	2.50	2.50	3.00	3.00
EPS adj.	13.82	4.94	8.31	10.86	13.07
P/E adj.	9.4	20.4	15.8	12.1	10.1
EV/S	0.7	0.6	0.7	0.6	0.5
EV/EBITDA	4.1	4.4	4.0	3.5	2.6

Last updated: 2020-05-07

Owner	Equity	Votes
Wide Development Ltd	6.7%	6.9%
Swedbank Robur Fonder	6.3%	6.5%
Purple Wolf Ltd	5.7%	5.9%
Avanza Pension	5.4%	5.5%
Proxima Ltd	4.9%	5.0%
Aktia Asset Management	4.5%	4.6%
Tommy Svensk	4.4%	4.5%
G5 Entertainment AB	2.8%	0.3%
Nordnet Pensionsförsäkring	2.4%	2.5%

Company description

G5 Entertainment was founded in 2001 and is a developer and publisher of casual free-to-play games for smartphones and tablets with loyal players all over the world. The company has its headquarter in Stockholm, Sweden, with development offices in Moscow and Kharkov, Ukraine. There is also a procurement and licensing office in Malta and a small sales and marketing office in San Francisco, USA. In total, G5 has 520 employees.G5 has developed a business model that is both successful and scalable, which is reflected in the company's history. Together with the underlying driving forces and current trends in the mobile games industry the company will likely continue to develop its strong position with mobile casual free-to-play games.

Investment case

- We expect G5 to show a CAGR of 13% in 2020-2022. The mobile games industry as a whole is expected to grow with a CAGR of 10-20 percent during the same period according to Newzoo.
- G5 earns a majority of total revenues in Hidden Object games. G5 has found its niche within the target group of women aged 35 years and older. According to research, this target group is loyal, affluent and women usually make more in-app purchases than men.
- Around 50% of total revenue comes from North America and nearly 25% comes from Japan. Japan is a country where the Average Revenue per User (ARPU) is the highest in the world. We believe a higher market share in Asia is one of G5's major growth driver the coming years.

EBIT margin increases

The company has begun to focus on self-developed games. One of the benefits with fully-owned games is that the company does not have to pay any royalties to the developer, which means that the profitability will increase when the proportion of revenue from fully owned gaming increases. Today the only licensed game in the portfolio is Hidden City, its highest-grossing game. With 6 million monthly active users in total from its game portfolio, the company has a golden opportunity to cross-promote similar proprietary games.

Increased market share

In the past, the majority of the revenue from G5's games has come from the iPad (Thinkgaming). In order to grow in the segment of the mobile phone, the company has increased its efforts in the past years and optimized their content better for a smaller screen. The company's efforts have paid off when the mobile phones share of revenue has increased. Part of the success for "Hidden City" can, therefore, be explained by the company´s adjustments of content to be better suited for the mobile phone. As self-developed games to a certain degree will take over the coming years, they have also been enhanced for playing on the mobile phone. For this reason, we believe that the share of revenues from the mobile phone will increase the coming years, which likely will be a major part of the company's overall growth.

Investment risks

Due to the low diversification in the game portfolio, the potential impact of the highly successful Hidden City's decline would affect total revenues dramatically. Mobile games have limited life cycles. It is therefore important to a gaming developer/publisher to deliver new attractive content when old titles reach maturity.

Catalyst types

Match 3 in the Wild West

After the success with "Jewels of Rome," the company has released a similar game in the highly lucrative Match 3 genre called "Jewels of the Wild West". The game has already shown promising monetization and will likely be the most important game to follow after "Jewels of Rome" the following months.

"Corona-Boost" in Mobile Gaming

Mobile games popular in the US and Europe has shown considerable monthly growth due to the lockdown, often between 20-50% in mid-sized games. G5 has its stronghold in the US. Match 3 games also generate 22% of total revenue in US, mainly from a few games.

The Rise of Rome

As expected, "Jewels of Rome" has become G5's highest-grossing self-developed game in the portfolio. How sustainable the revenues (and growth) will be is still fairly uncertain, but it looks promising. The changed positions on the top-grossing charts are always a catalyst for the stock.

EBIT margin gradually goes up

EBIT-expansion driven by investments in in-house developed games with lower royalty cost.

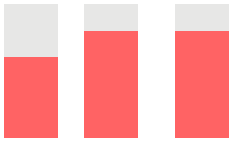
M.O.B.A. Network MOBA

Company page
https://www.redeye.se/company/m-o-b-a-network

Publication date
June 3 2020

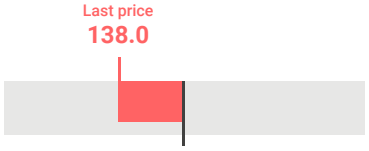
Redeye Rating

COMPANY QUALITY



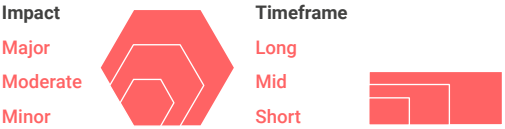
People Business Financials

FAIR VALUE RANGE



Bear **85.0** Base **170.0** Bull **300.0**

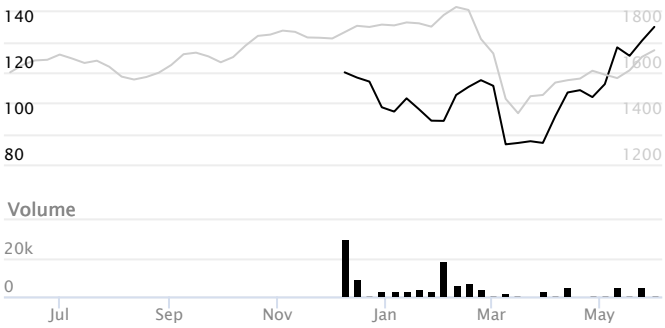
CATALYST POTENTIAL



Turn page for catalyst specifics

Snapshot

M.O.B.A. Network
OMXS30



Marketplace	First North Stockholm
CEO	Björn Mannerqvist
Chairman	Fredrik Burvall

Share information

Share price (SEK)	138.0
Number of shares (M)	1.7
Market cap (MSEK)	235
Net debt (MSEK)	-23

Analyst



Jonas Amnesten
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Conflict of interests

Jonas Amnesten owns shares in M.O.B.A. Network: No

Redeye performs/have performed services for the Company and receives/have received compensation from the Company in connection with this.

Financials

	18/19	19/20	Redeye Estimates 20/21E	21/22E	22/23E
Revenue, MSEK	0	23	32	43	57
Growth			*43.1%*	*34.2%*	*30.9%*
EBITDA	0	12	15	21	28
EBITDA margin	*0.0%*	*53.5%*	*47.6%*	*49.0%*	*50.2%*
EBIT	0	11	14	19	25
EBIT margin	*0.0%*	*48.9%*	*42.3%*	*43.2%*	*44.9%*
Pre-tax earnings	0	10	13	18	25
Net earnings	0	7	9	13	18
Net margin	*0.0%*	*31.6%*	*27.6%*	*30.8%*	*32.3%*
Dividend/Share	0.00	0.00	0.00	0.00	2.12
EPS adj.	0.00	5.33	5.34	7.83	10.59
P/E adj.	0.0	21.6	25.9	17.6	13.0
EV/S	0.0	7.7	6.4	4.5	3.2
EV/EBITDA	0.0	14.4	13.5	9.2	6.3

Last updated: 2020-06-03

Owner	Equity	Votes
New Equity Venture	28.5%	28.5%
Trottholmen	22.4%	22.4%
AB B21 Invest	12.9%	12.9%
AB Rugosa Invest	9.3%	9.3%
Cloverhill Holdings Ltd	9.2%	9.2%
TIN Fonder	3.3%	3.3%
Digital Spine	2.9%	2.9%
Manfred Gottschlich	2.5%	2.5%
Alcur Select	1.4%	1.4%

Company description

M.O.B.A. Network (M.O.B.A.) was founded in January 2018 to find suitable acquisition candidates active within the gaming (computer game) sector, an area that M.O.B.A.'s management and Board of Directors have previous experiences regarding business development and expansion. M.O.B.A. is listed on Nasdaq First North Growth Market and has 16 employees working from Sweden, the US, Canada, Serbia as well as Romania.

In September 2018, the Canadian company CriticalClick Inc. was acquired with established brands, a solid knowledge base, and profitability with good margins. M.O.B.A. assessed good opportunities to add its own experiences from the expansion of similar businesses with the aim of developing CriticalClick through growth, efficiency, and other rationalization gains.

Investment case

- Communities
- A fast-growing company in a fast-growing sector
- Strong gaming IPs
- Adding communities and economies of scale

Communities

M.O.B.A.'s communities benefit from substantial **user content**, as well as **network effects**. User content is cheap, as it requires limited rescores, and has a strong positive effect from an SEO perspective. The community also creates network effects as the number of users and volume of relevant content grows. This will become even more attractive as it increases in size, creating considerable moats if it becomes one of the leading communities in its niche.

A fast-growing company in a fast-growing sector

M.O.B.A. focuses on communities in the gaming sector - particularly brands that are suitable for Esport. The gaming sector is set to grow rapidly in the coming years and Esports will grow even faster. Several **megatrends** drive this growth. M.O.B.A. has also proven that it can grow both visitor traffic and revenues **substantially faster** than the underlying market.

Strong gaming IPs

M.O.B.A. owns communities that focus on some of the most influential gaming IPs in the world, with the largest community, Mobafire.com, focusing on the LoL game. LoL is ranked **No.1** in the world - both as the most popular core PC game and as the most watched game on Twitch. We expect strong IPs like LoL to benefit from an **extended lifetime.**

Adding communities and economies of scale

The group can grow by adding new communities, either through in-house launches on its proprietary platform or acquisitions. It develops and launches new in-house communities in conjunction with releases of new games. To get them off to strong starts, M.O.B.A. **cross-promotes** these launches to its existing communities in the same genre. Furthermore, the company is working to improve its existing websites. This has led to traffic growth of several hundred percent for some sites. We also believe that there is considerable room to improve the average revenue per user as well.

M.O.B.A.'s clear M&A focus in the gaming community niche is evident in its successful acquisition of CriticalClick in 2018. Today many communities in the sector operate at a "hobby" level that offers substantial potential for synergies and optimization if commercialized under M.O.B.A.'s umbrella. Accordingly, we see good scope for the company to make **value-adding acquisitions.**

Counter-Thesis – Bear Points

Short history

The acquired CriticalClick has a 10-year successfully track record. However, as M.O.B.A. has only made one acquisition in two years and CriticalClick has only operated under M.O.B.A.'s umbrella since September 2018, the existing set-up and M&A strategy still needs to prove itself further.

Community and game dependency

M.O.B.A. has significant dependence on a single community and a single game. The company's largest community in terms of visitor traffic is Mobafire.com, which generates some 80% of total traffic. Dependence on the game 'League of Legends' is even greater as websites that focus on this title generate about 95% of the company´s traffic. However, these dependences are declining with the rapid growth of the company's other websites.

Dependent on ads

We expect user activity in the communities to be relatively recession-resistant. However, the majority of M.O.B.A.'s revenues depend on pricing in the ads market, which is sensitive to economic downturns. The company is mitigating some of this risk by increasing direct sales.

Catalyst types

Quarterly reports

Quarterly reports showing underlying user activity growth being converted to revenues would be positive for the case.

Corona boosted traffic volumes

With the corona crisis having put much of the world into isolation, gaming activity has increased, which could boost revenues in the coming quarters and even create a longer-lasting uptick.

Acquisitions

M.O.B.A. has a clear M&A strategy, though it has only acquired CriticalClick so far. If this starts to deliver results, we believe investors will value this highly and bid up the share significantly.

Expansion of the services

The new business area M.O.B.A Services is developing new services. First out is direct sales, partnership, and sponsorship, which could multiple revenues.

Potential target

M.O.B.A. could be a potential acquisition target for companies seeking to access attractive traffic volumes from the rapidly growing gaming community.

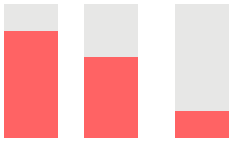
Nitro Games NITRO

Company page
https://www.redeye.se/company/nitro-games

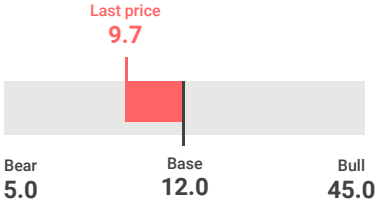
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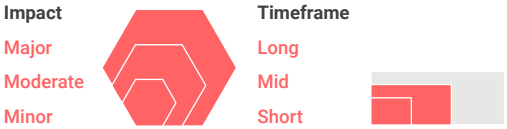
COMPANY QUALITY



FAIR VALUE RANGE



CATALYST POTENTIAL



Turn page for catalyst specifics

Snapshot

Nitro Games
OMXS30



Marketplace	First North Stockholm
CEO	Jussi Tähtinen
Chairman	Jacob Ehrnrooth

Share information

Share price (SEK)	9.7
Number of shares (M)	5.0
Market cap (MSEK)	48
Net debt (MEUR)	-2

Analyst



Tomas Otterbeck
tomas.otterbeck@redeye.se

Conflict of interests

Tomas Otterbeck owns shares in Nitro Games: Yes

Redeye performs/have performed services for the Company and receives/have received compensation from the Company in connection with this.

Financials

			Redeye Estimates		
	2018	2019	2020E	2021E	2022E
Revenue, MEUR	2	1	2	3	3
Growth	*27.5%*	*-62.6%*	*>100%*	*47.8%*	*34.4%*
EBITDA	-5	-3	-2	-1	0
EBITDA margin	*Neg*	*Neg*	*Neg*	*Neg*	*Neg*
EBIT	-6	-3	-2	-1	0
EBIT margin	*Neg*	*Neg*	*Neg*	*Neg*	*Neg*
Pre-tax earnings	-6	-3	-2	-1	0
Net earnings	-6	-3	-2	-1	0
Net margin	*Neg*	*Neg*	*Neg*	*Neg*	*Neg*
Dividend/Share	0.00	0.00	0.00	0.00	0.00
EPS adj.	-1.19	-0.66	-0.23	-0.15	-0.06
P/E adj.	-3.0	-1.2	-4.2	-6.3	-16.2
EV/S	8.1	4.9	3.3	2.7	2.6
EV/EBITDA	-3.4	-1.2	-3.2	-6.1	-26.2

Last updated: 2020-05-04

Owner	Equity	Votes
Jacob Ehrnrooth	16.7%	16.7%
Savox Investments S.A.	12.0%	12.0%
Johan Biehl	8.2%	8.2%
Swedbank Robur Fonder	7.8%	7.8%
Ludvig Strigéus	4.7%	4.7%
Avanza Pension	4.2%	4.2%
Aktia Asset Management	3.8%	3.8%
Antti Villanen	3.6%	3.6%
Luxus Micro Cap S.A	3.5%	3.5%
Matti Nikkola	3.2%	3.2%

Company description

Nitro Games is a mobile game developer and as of recent a publisher with a decade of experience in developing games for the mid-core user segment. Nitro Games has a long history of stable cash flows from developing contracts from bigger publishers which minimise risk in the business model.

Nitro Games second business area is developing and publishing mobile games. Nitro Games has adapted its business model closely after market conditions. The company utilizes its own NG Platform -technology that allows it to develop and publish high-end mobile games with impressive graphics and modular design under a short period of time. This is, as well as the company's MVP-process, are according to Nitro Games, unique strengths as they allow a cost-effective development of the games portfolio.

Investment case

- One of the biggest values in Nitro Games is the self-developed NG Platform. With the NG Platform combined with a proven creative process, Nitro Games can launch a mobile game in 5-10 months, typically this takes 6-18 months for most mobile games.
- April 15, 2020, Nitro Games announced that Nordisk Film Games becomes the largest shareholder (40% of total shares) in the company. SEK 25 million has been invested through in a directed share issue and SEK 20 million in a convertible loan.
- Nordisk Film Games fully own Avalanche Studios and Nitro Games is the developer of the mobile version of their most profitable IP "theHunter". We believe it is likely Nordisk Film Games will acquire Nitro Games in 1-3 years.

Investment risks

According to a research made by Deloitte approximately 2.5 percent of the mobile game companies made over EUR 1 million in 2016. Most mobile game developers struggle with bad monetisation in their games.

The probability that it will take 2 years before Nitro Games will release a top grossing game is relatively high. We estimate the probability of this scenario is about 40-50 percent. We believe the stock will be volatile on investor's hopes increasing risk in the stock.

It is also possible that the company never will succeed in the self-publishing mobile games industry. However, Nitro Games third-party development services are reducing the potential downside in the stock. This is our Bear-case scenario with a probability of 25 percent.

Catalyst types

An Obvious Takeover Target

We believe Nordisk Film Games will acquire Nitro Games in 1-3 years. The timing of the acquisition and the price tag will depend on how well Nitro Games will realize its vision. Nordisk Film Games own 40% of the capital in Nitro Games.

Second Chance for Heroes of Warland

The new version of the game should be considered a totally new game with improved game mechanics built upon a newly updated game engine specialized in shooter-games. In a few months, we expect a soft-launch of the game with Netmarble as a publisher in the MEA-regions.

Lootland soft-launch

A new game release is always a catalyst in small studios. We have tested Lootland in an early stage and find that it is a promising game.

Royalty-Opportunity

Nitro Games has recently soft-launched the game "theHunter Mobile" for Avalanche Studios. This is a popular and highly profitable game especially on PC. We expect Nitro Games will have a royalty, which could be an important cash stream in the future.

The Gateway to Asia

Netmarble and Nitro Games have signed two publishing agreements for both Medals of War and Heroes of Warland in the Middle-East and Africa . The first publishing deal generated an initial revenue of EUR 0.2 million and the second one generated EUR 0.5 million for Nitro Games. Netmarble is also interested in similar publishing agreements for the games in Asia, including China, Japan and Korea which is the biggest and fastest growing markets amongst mobile games. So a big potential catalyst for the stock is of course if new publishing deals for those countries would be signed.

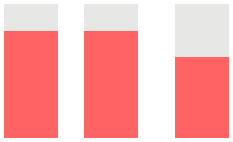
Remedy Entertainment REMEDY

Company page
https://www.redeye.se/company/remedy-entertainment

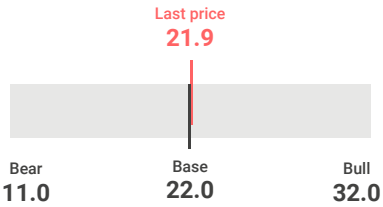
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Redeye Rating

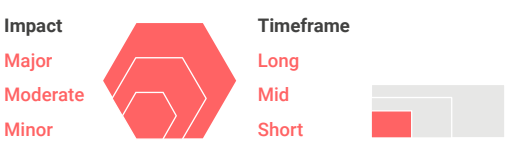
COMPANY QUALITY



FAIR VALUE RANGE



CATALYST POTENTIAL



Turn page for catalyst specifics

Snapshot

Remedy Entertainment
OMXS30



Marketplace	First North Finland
CEO	Tero Virtala
Chairman	Markus Mäki

Share information

Share price (EUR)	21.9
Number of shares (M)	12.1
Market cap (MEUR)	264
Net debt (MEUR)	-34

Analyst



Tomas Otterbeck
tomas.otterbeck@redeye.se

Conflict of interests
Tomas Otterbeck owns shares in Remedy Entertainment: Yes
Redeye performs/have performed services for the Company and receives/have received compensation from the Company in connection with this.

Financials

			Redeye Estimates		
	2018	2019	2020E	2021E	2022E
Revenue, MEUR	20	32	40	48	61
Growth	*17.3%*	*57.1%*	*25.8%*	*21.1%*	*27.2%*
EBITDA	1	7	10	10	19
EBITDA margin	*3.0%*	*20.7%*	*26.4%*	*19.8%*	*31.7%*
EBIT	1	7	10	9	19
EBIT margin	*3.0%*	*20.7%*	*26.4%*	*19.5%*	*31.4%*
Pre-tax earnings	1	6	10	9	19
Net earnings	1	5	10	9	19
Net margin	*3.0%*	*16.2%*	*26.4%*	*19.5%*	*31.4%*
Dividend/Share	0.00	0.10	0.15	0.17	0.20
EPS adj.	0.05	0.43	0.87	0.78	1.59
P/E adj.	132.8	25.6	18.9	21.1	10.3
EV/S	3.0	3.7	4.1	3.2	2.3
EV/EBITDA	99.8	17.7	15.6	16.4	7.2

Last updated: 2020-04-02

Owner	Equity	Votes
Markus Mäki	27.3%	27.3%
Accendo Capital	20.5%	20.5%
Sami Järvi	5.1%	5.1%
Working Capital Management Pte Ltd	3.4%	3.4%
Tero Virtala	2.9%	2.9%
Taaleritehtaan Rahastoyhtiö Oy	2.4%	2.4%
Saku Lehtinen	2.1%	2.1%
Tero Tolsa	1.4%	1.4%
Mika Reini	1.4%	1.4%
Anssi Hyytiäinen	1.4%	1.4%

Company description

Remedy Entertainment is at the ratings forefront globally for its games. Its biggest commercial success to date is the cult classic Max Payne, released in the early 2000s. In the history Remedy is also known for spending a very long time developing its games, which in this industry means in excess of four years.

Shortly after the release of the game Quantum Break, Remedy began a new chapter in its life when Markus Mäki, co-founder and the largest shareholder, ceded the role of CEO to Tero Virtala.

Remedy's most important strategic decisions in this process were:

1) Remedy will in future be a PC & console-independent game developer after having developed games for Microsoft for 12 years.2) Game development transitioned to a multi-project model.3) Remedy will over time build an IP portfolio and part-finance its game development.4) In addition Remedy selectively does work for hire type project where risks are lower but which also have an upside potential based on the success of the game.5) The company chose to start developing games with focused feature-set and scope with uniqueness, based on its core values of storytelling and innovative action.

Investment case

- Remedy has gone from working with single projects to working with 2-4 projects simultaneously, and as the number of projects grows, will release games more regularly.
- The key will be to maintain its quality reputation among gamers. Remedy's business model has changed dramatically the last years.
- The company has moved from a pure "work for hire" model to multi-project model in which the company also partly finances those game developments in which it retains IP ownership.

The new business model suggests more risk for each project, but considerably raises leverage if the game becomes a commercial success. Remedy focus on developing high-quality games with a budget of less than EUR 30 million which mean a game does not need to sell huge numbers to be profitable. Profitability could improve greatly in the coming years if Remedy succeed in this new strategy.

Catalyst types

Reveal of "Third Project"

Many fans and likely also shareholders hope that the so-called "Third Project" published by Epic Games will be in the universe of Alan Wake. This is Remedy's strongest IP and is was more than eight years ago a new Alan Wake game was released. Remedy has teased something might be announced on the company's 25th birthday the August 18 2020.

Partnership Agreement for Project Vanguard

The upcoming Project Vanguard (service-based multiplayer game) which we estimate will launch in 2021 is under development. We do not expect a better deal than the publishing deal with Epic Games (because that is not possible...). Potential partnership candidates are Sony, Microsoft, Smilegate/Tencent, Leyou and Epic Games.

Alan Wake Remaster/Remake

July 1 2019 announced that the publishing rights of Alan Wake were reverted from Microsoft. After this deal Remedy has full control of the Alan Wake franchise. For example, the studio can decide to develop a remaster or a remake of the game.

Royalty from Crossfire Story Mode

The Story Mode for Crossfire HD and Crossfire X is being developed by Remedy. We believe there is a variable aspect to this deal, with potential royalties.

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Stillfront Group SF

Company page
https://www.redeye.se/company/stillfront-group

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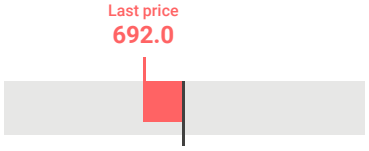
Redeye Rating

COMPANY QUALITY



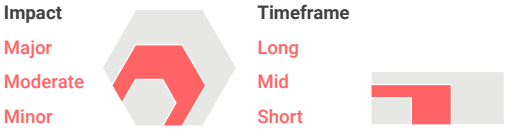
People Business Financials

FAIR VALUE RANGE



Bear 500.0 Base 750.0 Bull 950.0

CATALYST POTENTIAL



Turn page for catalyst specifics

Snapshot

Stillfront Group
OMXS30



Marketplace	First North Stockholm
CEO	Jörgen Larsson
Chairman	Jan Samuelson

Share information

Share price (SEK)	692.0
Number of shares (M)	32.6
Market cap (MSEK)	22,539
Net debt (MSEK)	976

Analyst



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Conflict of interests
Kristoffer Lindström owns shares in Stillfront Group: Yes
Redeye performs/have performed services for the Company and receives/have received compensation from the Company in connection with this.

Financials

	2018	2019	Redeye Estimates 2020E	2021E	2022E
Revenue, MSEK	1,325	1,966	4,352	5,440	6,256
Growth	*>100%*	*48.4%*	*>100%*	*25.0%*	*15.0%*
EBITDA	473	741	1,826	2,057	2,564
EBITDA margin	*35.7%*	*37.7%*	*42.0%*	*37.8%*	*41.0%*
EBIT	348	517	1,070	1,453	1,795
EBIT margin	*26.3%*	*26.3%*	*24.6%*	*26.7%*	*28.7%*
Pre-tax earnings	265	454	993	1,354	1,705
Net earnings	156	340	744	1,014	1,278
Net margin	*11.8%*	*17.3%*	*17.1%*	*18.7%*	*20.4%*
Dividend/Share	0.00	0.00	0.00	0.00	0.00
EPS adj.	6.62	10.73	22.98	31.33	39.47
P/E adj.	26.4	34.9	27.4	20.1	16.0
EV/S	3.4	6.6	5.4	4.2	3.4
EV/EBITDA	9.5	17.4	13.0	11.0	8.3

Last updated: 2020-05-12

Owner	Equity	Votes
Laureus Capital GmbH	14.1%	14.1%
Swedbank Robur Fonder	9.6%	9.6%
Handelsbanken Fonder	8.7%	8.7%
SEB Fonder	8.1%	8.1%
State Street Bank And Trust co	5.2%	5.2%
Första AP-fonden	5.1%	5.1%
Länsförsäkringar Fonder	3.9%	3.9%
Man Hay Tam	2.6%	2.6%
Avanza Pension	2.6%	2.6%
Morgan Stanley & co Intl Plc	1.7%	1.7%

Company description

Stillfront Group has grown substantially over the past years through acquisitions. Stillfront is a leading free-to-play powerhouse of gaming studios. Our diverse and exciting games portfolio has two common themes; loyal users and long lifecycle games. The company combines the gaming studios' agility with a professional public structure in order to attain synergies and efficiency. Stillfront has a global reach with more than 15 million monthly active users from over 100 countries. The company listed their shares on Nasdaq Stockholm First North during 2016.

Investment case

- Strong focus on risk: Stillfront has a distinct focus on creating good risk adjusted return to their shareholders. We find that the market do not put enough premium on this ability.
- M&A roll-up always at a discount: Stillfront continuously conduct M&A to further expand the Group. Historically the market has had a hard time putting the right value of the acquisition as the targets are rolled-up, into the Group.
- Compared to many gaming peers Stillfront has a solid underlying revenue generation capability and is in a way less dependent on new "hits." The lower risk profile should warrant a premium valuation compared to most comparable companies

Focus on risk and return creates an advantage

We believe Stillfront will continue to deliver significant growth as the company focus on bringing low-risk titles to the market. We also expect underlying growth in the gaming market and an increase in revenues from mobile. The acquisition of Goodgames takes the company to a whole new level and the latest of Kixeye, Strom8, and Candywriter a new chapter begins. Stillfront continues to add new products to its portfolio and at the begging of 2020, the company states that their pipeline is the strongest in the company's history.

We find that Stillfront is valued at low multiples of earnings, about the same levels as public mobile game developers, despite Stillfront's focus on a combination of browser, mobile, and PC. Compared to mobile gaming companies the Group has 2-3x margins, and a strong competitive position in their niche, less title risk, and a track record of successful M&A. We believe that these factors should lead to a higher valuation than the one we see today. Stillfront is continuously valued at a discount to underlying earnings as there are most often one or a new M&A deals that are rolled-ep into the Group.

As a gaming company, there is always uncertainty in the success of new launches. Compared to many gaming peers Stillfront has a solid underlying revenue generation capacity and is in a way less dependent on new "hits." The lower risk profile should warrant a premium valuation compared to most comparable companies in our view. We find Stillfront conservatively valued and consider the company as an attractive risk-reward from an investment perspective and that the market both underprices the company's ability to deliver risk-adjusted earnings to their shareholders and the upcoming game launches.

The largest risks and counterarguments to our investment case (Bear points)

- Title risks: Despite a focus on their game portfolio there is always a title risk when it comes to a gaming company. The largest risk will always lie in titles where the company has invested the most.
- The risk of acquisitions: Stillfront has a clear focus on acquiring companies. Acquisitions always come at a risk for paying too much for a company that might not deliver on expectations. Stillfront continues to be cautious and extremely picky when it comes to game quality and price tag. Still, this is something an investor must continue to monitor.

Catalyst types

M&A roll-up

There is a substantial amount of acquisitions that are being "rolled-up" into the Group. KIXEYE was consolidated from July the 1st '19, and during Q1'20, Storm8 was included for only one month, and Candywriter will be consolidated from May the 1st. Investors have a hard time grasping the M&A "roll-up". We expect that the valuation will increase the coming quarters as the market get a better grasp of underlying earnings.

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