

Thunderful

Sector: Gaming

A Thunderful Transformation Story

Redeye initiates coverage on Thunderful Group, an organic growth story bolstered by acquisitions. Investor confidence faltered with the Q4'20 report after we believe the market misjudged the stability of the Distribution business and underestimated the potential in the Games business. We anticipate a closing of this valuation gap as Thunderful's quality shines through in its coming quarterly reports.

Attractive transformation at a low valuation

We see the core of Thunderful, its games studios, growing significantly in the coming years both organically and via acquisitions. As an increasing share of revenues and, not least, profitability consists of the gaming studios, the share's appeal will shine. At present, the quality of game development is very high, above all implied by the ratings from game critics and players (average ~ 80 Metacritic rating). We forecast that Games will account for 59% of 2025E EBITA, up from today's 19%. Redeye believes that Games alone is worth SEK 74 per share today.

A giant leap for a small company

Thunderful Group will, we believe, grow even faster thanks to acquisitions. Assuming that Thunderful makes acquisitions funded half with shares, and accounting for the most recent major acquisition, its total acquisition power amounts to SEK 2.3 billion, according to our calculations. This implies significant total multiple arbitrage that the company can make in the short term. Given our faith in management, this acquisition power should create even greater shareholder value in the longer term. Our SOTP calculation assumes EV / EBITA of 25x for Games. If we apply the same multiple to acquired EBITA and adjust for dilution and a net debt ceiling, we see potential for an additional SEK ~ 24–57 in per share value.

High quality at low risk

Two announced pipeline games – The Gunk and Lost in Random (due for release in H2 2021) – are Thunderful's most ambitious game projects to date, with corresponding budgets. The development costs for these two games are being paid by Microsoft and EA, respectively, which means a healthy margin even pre-release. We believe these games will put Thunderful on the map internationally speaking.

Upside north of 60%

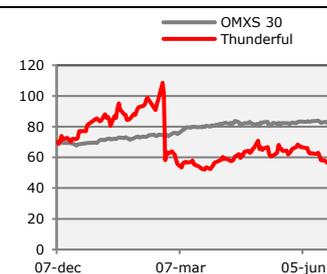
Redeye believes that Thunderful's investments in Games will play out well, with the margin mix improving significantly in the coming years. M&A represents an extra option. We assign a Base case of SEK 95, which suggests upside in the share in excess of 60% from today's level.

KEY FINANCIALS (EURm)	2018	2019	2020	2021E	2022E	2023E
Net sales	1936	2116	3082	3296	3414	3425
EBITDA	166	230	277	414	486	526
EBIT	156	209	215	330	389	421
EPS (adj.)	Na	Na	2,7	3,7	4,5	4,8
EV/Sales	Na	Na	1,2	1,2	1,0	0,9
EV/EBITDA	Na	Na	-13,3	9,2	7,3	6,1
EV/EBIT	Na	Na	17,2	11,5	9,1	7,6
P/E	Na	Na	21,5	15,5	13	12

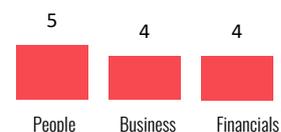
FAIR VALUE RANGE

BEAR	BASE	BULL
55	95	140

VERSUS OMXS30



REDEYE RATING



KEY STATS

Ticker	THUNDR
Market	First North
Share Price (SEK)	61
Market Cap (MSEK)	4118
Net Debt 21E (MSEK)	-310
Free Float	50 %
Avg. daily volume ('000)	330

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Investment Thesis

At the core of Thunderful Group lies its gaming studios, part of the Thunderful Games business area. We anticipate significant growth in the studios in the coming years, both organically and thanks to acquisitions.

As the gaming studios represent an increasing part of revenues and, not least, profitability in Thunderful, the share's appeal to investors will increase, we believe. At the time of writing, we consider the quality of the Group's games development very high, above all implied by the ratings from game critics and players.

Strong organic growth at low risk – cash flows from Distribution to Games

Thunderful Development has solid opportunities to demonstrate robust organic growth in the coming year's thanks to its pipeline of games. At the time of its IPO, Thunderful set an organic sales growth goal of 25% for the Games segment over the coming years alongside an EBIT margin of 35%. Like pure game studio Remedy, Thunderful is active in the premium segment for PC and console games. And as with Remedy, the major platform owners and game publishers have courted Thunderful to ensure the delivery of high-quality content within their ecosystems.

Diversified revenues and stable cash flows from the Distribution segment reduce the risk in the business and the share. We estimate that Distribution's operating cash flows amount to SEK 120-170m for 2020-2025E. This implies that Thunderful is not forced to release games before they feel finished, as it is not dependent on the cash flows from upcoming game releases.

The two games already announced in Thunderful's pipeline (The Gunk and Lost in Random, both for release in the second half of 2021) are its most ambitious game projects to date with corresponding budgets. All development costs for these two games are being paid by Microsoft and EA, meaning healthy margins even pre-release. We believe these two games will put Thunderful on the map internationally speaking.

A giant leap for a small company

Thunderful Group looks set to accelerate its growth via acquisitions. Altogether, management has 10-20 years' experience in game development, although only a few years' experience of acquisitions within the gaming industry. However, Bergsala Group has brought to the table ten years of completed acquisitions, mergers, and restructuring experience. Prior to listing, Thunderful acquired the UK-based game developer and publisher Coatsink in what currently appears to be a favourably priced deal. Thanks to its broad network of contacts in the industry and sound focus on quality and other soft factors, Thunderful will, we believe, surprise positively with upcoming acquisitions.

A vast majority (approximately 90%) of its revenues today come from Distribution, offering solid cash flows that can finance future investments and acquisitions. Today, Thunderful strives for interest-bearing net debt in relation to adjusted EBITDA of less than 1.5x, corresponding to an acquisition margin of SEK 1.15 billion. Assuming that Thunderful makes acquisitions funded half with shares and factoring in the most recent major acquisition, we calculate its total acquisition power at SEK 2.3 billion. This renders the total multiple arbitrages the company can make in the short term significant. Given our confidence in management, we see this acquisition power holding the potential for even greater shareholder value in the long term.

Experienced leads with skin in the game

Management jointly owns around 15% of the share capital, while management and the board own approximately 40% of the total capital. Across management and the board is extensive industry experience in both Games and Distribution. Head of Games, Klaus Lyngedal, founded the group company Zoink!, while the CEO, Brjann Sigurgeirsson, has around 20 years of experience in the gaming industry and started one of the Group's gaming companies, image & Form. Owe Bergsten founded Bergsala in 1976 and brings with him 45 years' experience from the distribution industry.

VR – the fastest-growing gaming segment

Oculus Quest 2 has accelerated the user base for VR software, with more than five million units of hardware sold in the two quarters since its Q4'20 launch. These impressive sales figures are on par with the new traditional PlayStation 5 and Xbox Series X/S consoles. Added to this, Coatsink has many VR games in its game portfolio. For example, a sequel to last year's critically acclaimed Jurassic World Aftermath is expected for release in the second half of 2021. Competition among VR games is currently very low, and the Jurassic World game has received good ratings, which we believe brings a high degree of penetration. Only about 190 games are available on the Oculus Quest Store for VR games. We see the VR trend as advantageous for Thunderful in the coming years.

Catalysts

M&A – may add 29-57% to 2021E EBITA per share

We estimate the acquisition capacity for the Group at a maximum of SEK 2,300m and believe that Thunderful will acquire companies in the Games segment. According to our calculations, Thunderful can add approximately SEK 120-288m (29-47% added to 2021E) in EBITA for Games. Our sum-of-the-parts (SOTP) calculation assumes EV/EBITA of 25x for Games for the current year. If we assume the same multiple for acquired EBITA and adjust for dilution and a net debt ceiling, we arrive at an additional share value of SEK 24 -57 per share.

Investments in Games are beginning to bear fruit

Upcoming game releases have a high degree of optionality that can expedite the margin mix that we forecast, further accelerating the shift in the margin mix. Growing the gaming portfolio increases the chance of a big "hit." Thunderful is investing in more and larger gaming projects and growing its IP portfolio. It currently has 14 in-house game development projects and 29 game titles under development by third parties.

Regained reputation

Thunderful's reputation faltered when its Q4'20 report appeared to show a less stable Distribution segment than the market initially thought. We believe that Thunderful's coming reports will demonstrate the stability in revenues. Moreover, we anticipate a solid performance from Games in the future, bolstering investor confidence even further.

Risks

Distribution still pulls valuation multiples down

A vast majority (approximately 90%) of today's revenues come from Distribution. Although this brings positive cash flows that can finance future investments and acquisitions, we see this as casting a shadow over the perception of the share's valuation. In addition, should revenues from Distribution decrease slightly more than expected, it would probably act as a short-term headwind for shareholders.

Dependence on Owe Bergsten, Bergsala founder, and largest owner

The loss of Thunderful's distribution contract with Nintendo would harm the Group. However, we assess this risk as low for the following reasons: **1)** the current agreement with Nintendo lasts until March 2022; **2)** excluding Distribution, our SOTP valuation of Thunderful is SEK 74 per share today, above the current share price of SEK 58; and **3)** Bergsala, and not only Owe Bergsten, has built up a close relationship and collaboration with Nintendo Germany over 20 years. Nintendo has five distributors in EMEA, and we believe other distributors would lose their contracts before Bergsala should Nintendo decide to stop using third-party distributors; Bergsala has a longer relationship with Nintendo than the other distributors.

Acquisitions that go awry – goodwill amortization

The balance sheet includes considerable goodwill built up as a result of the conducted acquisitions. As of March 31, 2021, the goodwill amounted to SEK 475m or 19% of total assets. Should one or more of the acquisitions prove less successful, depreciation may hinder the share for a longer period. We assess the risk of this as low since the absolute majority of the goodwill arose through the acquisition of Coatsink, which performed particularly well during Q1'21. Moreover, the recently announced collaboration agreement with Facebook has secured strong revenue streams for Coatsink for the next ten quarters, from Q3'21. In addition, the acquisition of Coatsink was conducted at a low valuation.

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The share

Thunderful Group was listed on the Nasdaq First North Premier Growth Market on December 7, 2020, and the share rose sharply initially from the listing price of SEK 50. The share opened at SEK 83 and closed at SEK 70 on the first trading day. The share had a pleasant journey until the Q4'20 report and noted an annual high the day before the report (which was released on February 24) of SEK 111 per share.

The disappointment and the “trust discount”

The report did not live up to the expectations of the market and fell almost 48% from its annual high on the reporting date. The share closed at SEK 58 per share and thus fell by approximately 31% intraday. Most funds that participated in the listing chose to sell shares in connection with the Q4 report.

The significant price decline can not be explained just by the bad quarterly result, in our opinion. Shortly before the Q4 report, the two banks that listed the company published positive analyst reports and overly optimistic estimates in the forthcoming quarterly report, which immediately created a minor crisis of confidence in both Thunderful and the two banks. In addition, many investors probably thought that the sharp decline in distribution profitability caused by the lack of major game releases from Nintendo and COVID-19 effects should have been noticed before the quarterly report. The report also lacked visibility within distribution, more specifically, better segment reporting.

CEO Brjann and CFO Anders Maiqvist both, together with two board members, bought shares after the downturn caused by the report. The CEO and CFO bought shares corresponding to SEK 3.2m and SEK 1.5m on 26 February 2020. Board members Cecilia Ogvall and Oskar Burman bought shares corresponding to SEK 123k and SEK 101.5k on 1 March and 26 February. The CEO and CFO have owned shares since earlier, while Oskar Burman and Cecilia own warrants.

Q1'21 report

Some of the confidence came back when Thunderful presented its Q1'21 report. The report had better visibility in the figures and lacked negative surprises. The Games segment also accounted for a large share of total adjusted EBITA (~45%) at the same time as Nordic Game Supply performed above expectations. We believe that the sharp fall in prices still has a negative effect on market sentiment around Thunderful. However, we also think that this will turn in a positive direction when the company's qualities become clearer for investors.

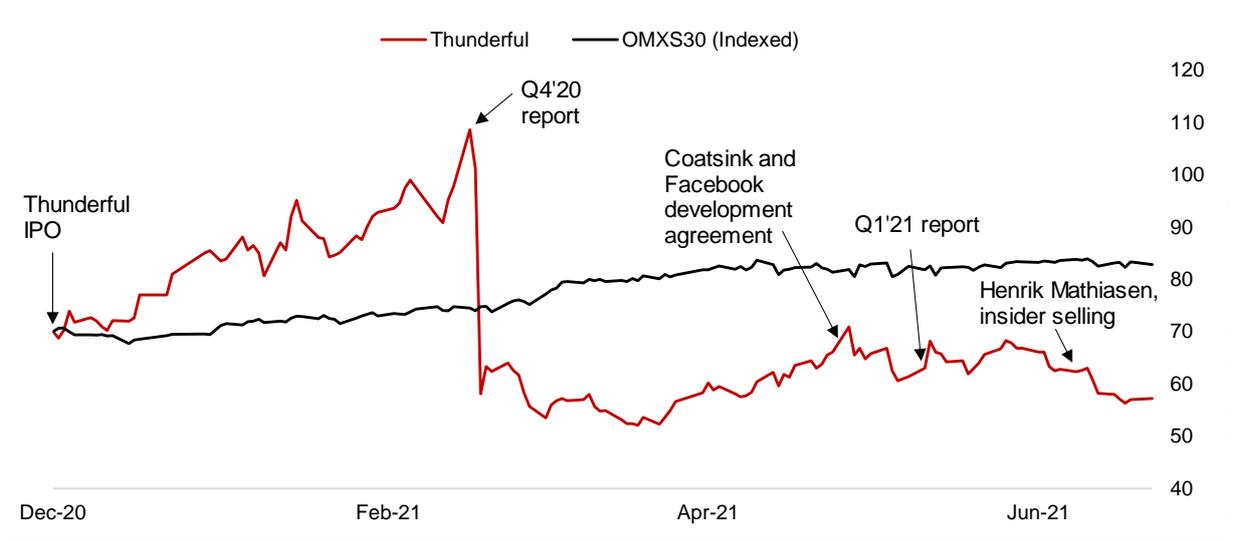
Events after the report

Henrik Mathiasen, Head of Distribution and CEO of Bergsala, sold 250,000 shares in June 2021, which corresponded to 25,4% of his holding in Thunderful Group. After the transaction, he continues to own 735,000 shares, corresponding to 1.1% of the total outstanding shares. We, of course, think it's negative to see insiders sell, but he still has a significant holding. Henrik also commented in connection with the sales that he has been employed since 2010 and has not sold any shares before. He also points out that he is selling part of his holding for private financial reasons and that he intends to continue to be an engaged employee and shareholder within Thunderful Group.

On June 29, Thunderful made a sharp recruitment in the form of Agostino Simonetta.

Agostino takes on the role as the new Strategy and Investment Manager (CSO) for Thunderful Group. Simonetta has Previously been Head of Global Partnership Management at Microsoft's ID@Xbox program and has previously held roles at SEGA Europe, PlayStation Europe, and THQ. As CSO at Thunderful, he will focus exclusively on the Games Segment. Simonetta contributes, in addition to his expertise and industry knowledge, with a wide range of contact networks in the gaming industry, which can lead to collaborations in game development, investments in gaming projects, publishing projects, and acquisitions.

THUNDR Share price



Source: Redeye Research, Bloomberg

Company overview

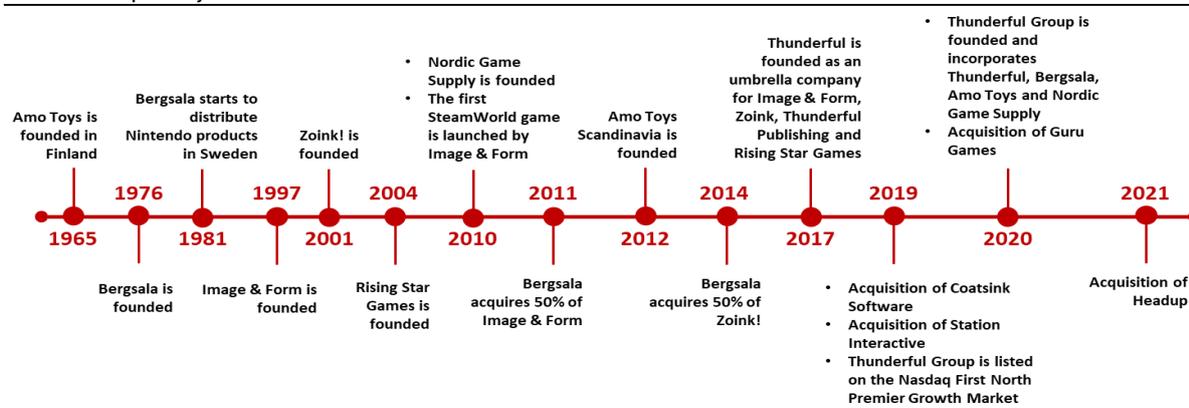
Thunderful Group (“**Thunderful**,” “**The company**” or **the group**”) was formed in 2019 after the corporate groups Bergsala and Thunderful were consolidated to create a strong player in the market regarding the distribution of Nintendo products, games, gaming accessories, and toys. Thunderful Group today consists of two business segments, namely Thunderful Games (“**Games**”) and Thunderful Distribution (“**Distribution**”). In 2020, the business had sales of SEK 3082m (2116.4), a growth of 46% compared to 2019, and generated an operating profit of SEK 215m, corresponding to an operating margin of 7.1%. The company has a market capitalization of approximately SEK 4,000m.

Thunderful Group’s revenue streams are well-diversified through its two business segments. The distribution segment accounted for 95% of sales, 82% of EBIT, and 80% EBITDA in 2020, while Games accounted for the remaining share.

History

Thunderful Group was formed in 2019. The company has a long history in the gaming and toy industry. Amo Toys, based in Finland, was founded in 1965 and became one of Finland’s first distributors of toys. Bergsala was founded shortly afterward in 1976 in Kungsbacka. Shortly thereafter, Bergsala entered into a distribution agreement with Nintendo regarding the distribution of Nintendo’s products in Sweden. There was no agreement in place for the first fifteen years, but the deal was based on a handshake. The first agreement was written in the mid-90s. Bergsala became the sole distributor and Nintendo’s first international distribution partner through the agreement. Bergsala is one of the few companies that has acted and acts as a distributor for Nintendo in the Nordic and Baltic countries and is Nintendo’s oldest partner, and have collaborated since 1981. The agreements extend over two years and are then renewed, and the current deal expires in March 2022. Finnish Amo Oy was acquired by Bergsala in 2016 and was a Nintendo distributor until 2012. Bergsala bought the Nintendo rights from Amo Oy.

Thunderful Group: History



Source: Redeye Research & Thunderful Group

The game studio Image & Form was founded in 1997 by Brjann Sigurgeirsson and his wife. Initially, the studio focused on games and software in the educational genre. However, the company shifted its focus in 2009 to pure game development. The studio ZoinK! was founded in 2001 by Klaus Lynged and focuses on narrative gaming experiences and innovative design. Image & Form launched the first SteamWorld game in 2010 and became one of the many successful games in the series.

Bergsala Holding and Henrik Mathiasen Holding founded Nordic Game Supply in 2010 as a partnership between the two holding companies. Bergsala buys 50% of Image & Form in 2011 and 50% of ZoinK in 2014.

Amo Toys Scandinavia is founded in 2012 after Bergsala, Henrik Mathiasen Holding, and Amo Oy founded the company. Bergsala buys Amo Oy 2016 and restructures Amo Toys Scandinavia and Amo Oy into Nordic Amo Toys.

Thunderful AB is formed through a merger of the game developers Image & Form and Zoink in 2017. In the following year, Thunderful Publishing AB ("**Publishing**") is formed as a subsidiary of Thunderful AB, and the company acquires all shares in Rising Star Games Ltd, a British indie publisher that has been part of Bergsala Group since 2004. Thunderful Group is formed in 2019 through a restructuring of the groups Thunderful and Bergsala. The newly formed Group Thunderful Group AB acquires the four subgroups Thunderful, Bergsala, NGS, and Amo Toys through a non-cash issue, and at the end of the year, Guru Games is acquired. Bergsala renews the distribution contract with Nintendo in 2020, and the partnership celebrates 40 years this year.

In 2020, Image & Form, Zoink, and Guru Games consolidated and integrated as Thunderful Development AB ("**Development**"). Thunderful Group acquired the British game development studio Coatsink Software in October 2020. The company develops games with a focus on the VR market. The game developer Station Interactive was acquired in November 2020, a reputable studio from Karlshamn with about 35 employees. The studio has previously worked for PlayStation on Little Big Planet and Sackboy. Station Interactive is also a part of Thunderful Development AB.

Thunderful Group was listed on Nasdaq First North Premier Growth Market on December 7, 2020. Following the listing, Thunderful Group acquired the German game publisher and developer Headup on February 24, 2021. Headup's CEO Dieter Schoeller will take over the role as Head of Publishing within Thunderful Group and thus become responsible for Thunderful's publishing operations in Sweden and Germany.

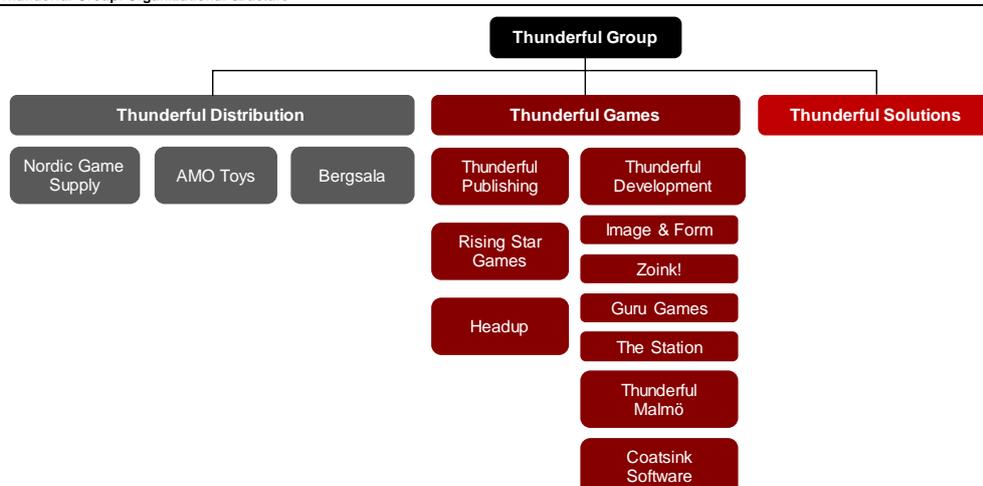
Company structure

Thunderful Group consists of two business segments: Thunderful Games and Thunderful Distribution. Thunderful Solutions was created to handle strategic issues and internal administration for Thunderful Group's companies. This is to utilize cost synergies and to manage the accounts in the listed group. All costs within Solutions are debited to the other two business segments every quarter.

Thunderful Games consists of two sub-segments – Thunderful Development and Thunderful Publishing. Thunderful Development AB consists of Thunderful Development and Coatsink, where the first-mentioned includes Image & Form, Zoink, Station Interactive, Guru Games, and Thunderful Malmö. Klaus Lyngedal is the CEO of Thunderful Games. Dieter Schoeller, who was previously CEO of Headup, is now the CEO of Thunderful Publishing and is responsible for Thunderful's publishing operations in Sweden and Germany.

Thunderful Distribution consists of Bergsala, Nordic Game Supply, and Bergsala. Henrik Mathiasen is the CEO of Distribution and Bergsala.

Thunderful Group: Organizational structure



Source: Redeye Research & Thunderful Group

See Appendix for a more detailed review of the company structure.

Shareholders

The list of owners is strong, with many insiders at the top, where Owe Bergsten, who is the founder of Bergsala, owns 25% of the capital.

Major Shareholders

As of 2021-03-31	Number of shares	Capital
Bergsala Holding AB*	17 163 028	24.9%
Swedbank Robur Fonder	5 650 000	8.2%
Brjann Sigurgeirsson	4 325 000	6.3%
Klaus Lyngeled	4 275 000	6.2%
Knutsson Holdings AB	2 000 000	2.9%
Forminx Invest AB	1 716 303	2.5%
Emid Invest AB	1 716 303	2.5%
Others (approx. 10 036 shareholders)	32 131 284	46.6%
Total:	68 976 918	100.0%

Source: Holdings, Redeye Research

* Owe Bergsten owns 100% of the shares in Bergsala Holding AB

Management and board – Large insider ownership

The management is experienced and has a long history within both the gaming industry and Thunderful Group. CEO Brjann Sigurgeirsson founded Image & Form in 1997 and was the CEO until 2017 when he took over as CEO of Thunderful AB. Brjann then became CEO of Thunderful Group in 2019. Anders Maiqvist, who is currently CFO of Thunderful Group, has previously been CFO of Bergsala since 2016. Klaus Lyngeled, who today holds the position of Head of Games at Thunderful Group, founded Zoink in 2001. Klaus previously was the Chief Creative Officer (CCO) at Thunderful. Henrik Mathiasen, Head of Distribution at Thunderful Group, co-founded Nordic Game Supply (NGS) and has previously held the position of CEO at Amo Toys Scandinavia. The management together has over 60 years of experience within the companies included in the Group.

In addition, all members of the management team own significant amounts of shares, which we consider to be very positive. CEO Brjann owns 6.3% of the total shares in Thunderful Group, Klaus Lyngeled owns 6.2%, and Anders Maiqvist and Henrik Mathiasen own 1.3% and 1.1%, respectively. The management thus holds ~15% of the company, corresponding to approximately SEK 590m.

Management team and key figures				
Name	Position	Since	Ownership	Experience
Brjann Sigurgeirsson	CEO	2019	4 325 000 shares (6.3% of total share capital)	Born in 1967, Brjann founded Image & Form in 1997 and has been the CEO of Thunderful Group since 2019. Brjann has studied graphic design at San Francisco City Collage, US. He also has a background as a writer and graphic designer at Koyosha Co. as well as having experience as a game programmer for Subaru International.
Ander Maiqvist	CFO	2019	881 651 shares (1.3% of total share capital) and 84 175 warrants series 2020/2023 (I)	Born in 1983, Anders has been the CFO of Thunderful Group since 2019. Anders holds a Master's Degree in Industrial Economics at Chalmers University of Technology. Anders has previously been the CFO of Bergsala since 2016. Before that he was the CFO of People's Choice and deputy CEO and CFO of Prognosis.
Klaus Lyngeled	Head of Games	2019	4 275 000 shares (6.2% of total share capital)	Born in 1975, Klaus is the founder of Zoink and has a background as a concept artist at Shiny Entertainment and as creative director at Unique Development Studios. Klaus has studied mathematics at Örebro University. Klaus has been the Head of Games at Thunderful Group since 2019.
Henrik Mathiasen	Head of Distribution	2019	985 000 shares (1.4% of total share capital) and 84 175 warrants series 2020/2023 (I)	Born in 1971, Henrik Mathiasen holds a business degree at Aarhus Business College, Denmark. He is the co-founder of Nordic Game Supply, CEO in AMO Toys Scandinavia and has previously been the CEO in The Games Factory ApS. Henrik has been the Head of Distribution at Thunderful Group since 2019.

Source: Holdings, Redeye Research

The Board has extensive experience in both the financial market and the gaming market. Chairman of the Board

Mats Lönnqvist has over 30 years of experience from leading positions in international companies such as Biacore, Esselte, SAS, and state-owned companies such as Securum and Postnord. Owe Bergsten is a co-founder of the group company Bergsala AB, which was founded in 1976 and has been active in Bergsala ever since. Owe has solid knowledge of the industry and owns 25% of Thunderful Group via Bergsala Holding, which is 100% owned by Owe Bergsten. Oskar Burman has extensive experience in the gaming industry from when he founded Unique Development Studios 25 years ago. Oskar co-founded Fast Travel Games, of which he was also CEO. In addition to this, he has worked for Avalanche Studios and as head of Rovio Stockholm. Oskar has experience with previous board assignments at Coffe Stain Studios.

In total, insider ownership amounts to approximately 40% of the total share capital. In addition to management and Board of Directors, employees within Thunderful Group approximately own 4,5% of the outstanding shares distributed over nine people.

Board of Directors				
Name	Position	Since	Ownership	Experience
Mats Lönnqvist	Chairman	2020	136 879 shares (0.2%)	Born in 1954. Mats has close over 30 years of experience from leading positions in economics and finance in international groups. He has been CFO and Deputy CEO of listed companies such as Biacore, Esselte and SAS, as well as the state-owned companies Securum and Postnord. Lönnqvist thus extensive experience of board work and being chairman in both privately owned and listed company, both nationally and internationally.
Owe Bergsten	Board Member	2019	17 163 028 (25%)	Owe Bergsten founded Bergsala in 1976 together with Lars-Göran Larsson, and has been active in Bergsala ever since.
Tomas Franzén	Board Member	2020	136 879 (0.2%)	Born 1962, Tomas Franzén has many years of experience as CEO and Chairman of the Board within Bonnier Group, Com Hem, Eniro and Song Networks (later TDC). He holds a number of positions in both listed and private companies.
Oskar Burman	Board Member	2020	1 600 shares and 84 175 warrants (0.12%) (ii)	Born in 1975, Oskar Burman has extensive experience from the gaming industry as he co-founded one of the first game developers in the Nordics, Unique Development Studios, 25 years ago. His previous experiences includes the start-up of Rovio's game studio in Stockholm, where he co-created Angry Birds 2. Oskar has also worked as a studio manager at Avalanche Studios and was a studio manager for Easy Studios, part of EA DICE.
Cecilia Ogvall	Board Member	2020	1 900 shares and 85 175 warrants (0.12%) (ii)	Born in 1966, Cecilia Ogvall has several years of experience as General Counsel at financial services company Global Blue Group. Before that she was a lawyer at Advokatfirman Vinge and MAQS Advokatbyrå.

Source: Holdings, Redeye Research

(ii): Refers to warrants series 2020/2023 (ii) ("W (ii)" issued under the Company's incentive program)

Strategy

Thunderful Development

Thunderful Development works primarily based on three well-defined strategic focus areas.

- **IP-centric development:** Thunderful considers it essential to maintain what the Group and their user base consider to characterize a Thunderful game. The Group, therefore, strives to develop games with brands that fit well into the portfolio and that can generate sequels, additional purchases, and revenue over a long period of time. The company also sees potential in monetizing Thunderful's strong brands in other mediums and platforms, for example, licensing out intellectual property rights to TV series or board games.
- **Platform agreements:** Thunderful has strong relationships with most platform owners and works to develop these relationships to establish more extensive and more lucrative platform collaborations. The Group also sees the potential to develop gaming experiences suitable for new gaming solutions such as streaming and subscription platforms.
- **Increased investment rate:** Thunderful enjoys stable operating cash flows from its distribution operations and intends to allocate these to increase the rate of investment in game development that is more profitable. Additional acquisitions are also a stated strategy for the Group.

Thunderful's internally developed games are characterized by, among other things:

- **Strong game design:** The games are associated with smart and innovative game design that delivers quality and a polished gaming experience.
- **Narrative gaming experience:** Each game is characterized by a unique story in a well-thought-out universe that enriches the IP and the overall gaming experience.
- **Single-player:** The majority of Thunderful's games are single-player games that are character-based and developed as an enclosed story that revolves around the main character.
- **High quality:** Quality throughout the gaming experience is vital to Thunderful. This applies to the gaming experience, the storytelling, as well as video and audio. Long-lasting IPs: and strong character design that is not only intended to create an individual game but also completely new worlds of experiences, which can potentially lead to sequels.

Favorable cooperation agreements at low risk

A trend in the gaming industry is that platform owners such as Microsoft, Facebook, Google, Steam, and Epic Games are fighting for the best content. This benefits developers, such as Thunderful, who have historically made high-quality games, allowing them to enter into very advantageous agreements. Thunderful Development can apply different types of models and agreements in the development and launch of games. You can look at this as a water tap the company can turn on depending on how much or little risk they want to take with a title. The risk is often linked to how great the reward can also be. Below, three main cooperation agreements are highlighted.

- **The Group owns the IP rights, and the company itself has financed the entire development:** Thunderful receives all revenue after taxes, other costs, and platform fees.
- **Games financed by third parties:** The third party receives compensation in the form of royalties. What the revenue distribution looks like depends entirely on how much of the development is financed by the publisher and how the agreement is designed. The publisher takes a larger share of the income until they have regained the amount invested.
- **Exclusive agreements with platform owners:** The platform owner pays all or part of the development cost through continuous payments linked to milestones during the game development process. An example of such an arrangement is the game "The Gunk," which is funded and will be marketed (within their internal channels) by Microsoft, without the tech giant receiving any revenue share from the game sales. The agreement only applies to exclusivity on Microsoft's platforms Xbox and Windows PC.

The agreements mean that Thunderful can secure financing and significantly reduce the risk of new game launches. At the same time, the option on the upside consists in that the company retains the IP rights, which can potentially be very valuable if the game releases are successful. It is very risky to develop a completely new game from scratch with an unproven IP, and we thus believe that the company shows intelligent risk management when they enter into exclusive platform agreements or favorable publisher agreements when it comes to the development of games with a new IP.

If the game turns out to be a hit, Thunderful will receive a large part of the revenue, and if the game flops, the loss is minimal as a third party financed the game. An added advantage is that Thunderful owns the IP in a possible sequel (when the IP has already been proven). In some cases, the first game publisher has the first dibs on a potential sequel, but in other cases, Thunderful is free to finance the game itself, as the risk is much lower with a proven IP. The best of both worlds, in other words.

These agreements give Thunderful good cost control. The third party that finances the development estimates what the budget is for a particular game, after which Thunderful develops the games at an often lower cost. This means that Thunderful can achieve a margin of about 25-35% (estimated by Redeye) before the game has sold a single copy. Despite the favorable agreements, Thunderful usually has a market-based revenue-sharing model for game sales, which means an option on the upside for each game release. Thunderful receives the development cost against the milestones achieved in the game development process.

Coatsink - a quality niche player at a reasonable price

Coatsink is a UK-based game developer and publisher best known for the critically acclaimed VR game Shadow Point and the development of their latest title, Jurassic World Aftermath. Historically, a large part of Coatsink's revenue has come from development contracts or "work-for-hire" projects. For example, in their latest VR game, the company gets the development cost paid by Facebook (for the development of Jurassic World Aftermath Part 1 & 2), while the company retains a market revenue share while Facebook recoups its investment. After recoupment, Coatsink receives more or less all the income itself. Coatsink has, among other things, worked on the game Gang Beasts, which has been sold in approximately 1.5-2m copies.

- The majority of Coatsink's revenue has historically come from third-party milestone payments. The income is thus very stable and recurring. The company, like Thunderful, also receives revenue share from games that they have developed that are financed by third parties.
- Coatsink has good relationships with partners and well-known companies such as Codemasters, Facebook, and Rebellion.
- Coatsink is a specialist within the fastest growing niche in gaming – Virtual Reality (VR). Coatsink has developed the critically acclaimed game Jurassic World Aftermath and acted as the publisher of one of the most popular VR games, Onward.

Agreement with Facebook worth USD 20 million

Coatsink acted as the publisher of one of the most popular VR games on the market, Onward. However, Facebook bought the development studio behind Onward during Q2 2021, and in connection with the acquisition, Facebook took over the rights for Onward. In connection with the news, Coatsink signed a new agreement with a subsidiary of Facebook regarding game development and collaboration projects. The deal includes linear milestone payments from Facebook for ten quarters starting from Q3'21. We estimate that Coatsink will receive approximately SEK 17m per quarter.

Thunderful Publishing

Thunderful Publishing (Publishing) was founded in 2018, and the business consists of the group companies Thunderful Publishing AB, Rising Star Games, and Headup. Rising Star Games was founded in 2004 as a joint venture between Bergsala and Japanese Marvelous to sell Japanese games in the West. Part of Coatsink's business also consists of publishing games, with the successful VR game Onward as the most prominent example. Since 2018, publishing has invested approximately SEK 95m in external game development projects, including Coatsink's publishing arm. Publishing has launched 37 game titles, of which three were internally developed titles. The experience and network the Group has made it possible for the business unit to act as a publishing partner for external game developers. The main focus is to act as a publisher for quality games.

Publishing regularly receives many requests from independent game developers to act as a publishing partner and to assist with consultation during the game development process. Publishing has developed a selection process to evaluate both quality and concept before entering into publishing agreements or financing game developers to ensure that the return on invested capital is good and that the end product maintains the quality associated with the Thunderful brand.

Below is a brief description of the three Group companies under the publishing arm. During Q1'21, all of the aforementioned companies were integrated into a single organization, but they will continue to act as individual labels for the time being.

Thunderful Publishing AB is responsible for publishing internally developed titles and externally developed titles by independent third parties.

Rising Star Games was founded in 2004 through a joint venture with the Japanese publisher Marvelous Entertainment. The focus of the business is to publish prominent Japanese game titles in Europe. In 2018, Rising Star Games was incorporated into Thunderful Publishing, and the management of Thunderful Publishing replaced the previous management. The collaboration with Nintendo means that the company has good knowledge of the Japanese gaming market.

Headup is a German publisher and game developer founded in 2009. Thunderful acquired the company in Q1'21. Headup has a long history of publishing games as they have been active for over a decade in the publishing market. The company is relatively small and at the time of the acquisition had 14 employees and a turnover of just over EUR 4m. The CEO of Headup, Dieter Schoeller, takes on the role of Head of Publishing within the Group. The strategy for Headup has historically been to publish a number of smaller indie titles each year, as the CEO and former sole owner Dieter has run the company without external capital. Dieter has been active in the industry for a very long time and has a solid network. We assess that the rate of investment will increase significantly once he has been appointed CEO of Thunderful Publishing. Historically, Headup has only been able to publish a limited number of titles due to lack of capital, which will now change.

Thunderful Publishing offers a full-service offer, which means that they assist with financing, consulting, quality assurance, publishing, marketing, sales, and contact with platform owners. The Group intends to allocate operating cash flows from distribution operations to increase the rate of investment in publishing operations and specific publishing projects with external game developers.

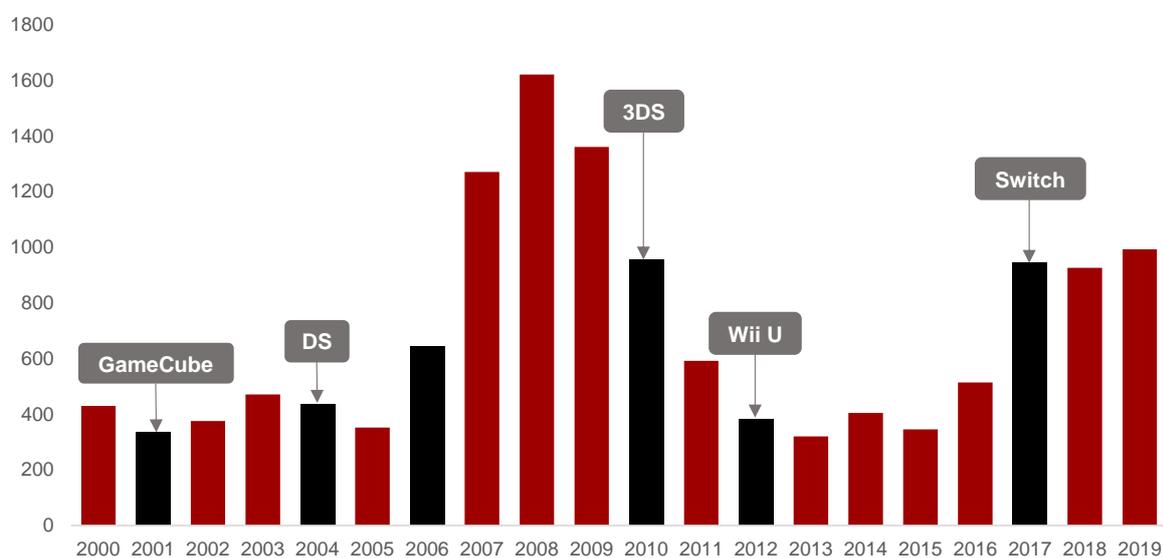
Thunderful Distribution

Thunderful Distribution consists of the three business segments Bergsala, Amo Toys, and Nordic Game Supply (“NGS”). It conducts operations in the distribution and sale of Nintendo products, toys, and gaming accessories. Amo Toys and NGS together have about 60 distribution agreements that cover about 100 different brands. Both Amo Toys and NGS also distribute a growing number of its own brands. Which generally leads to higher margins. Historically, the companies have primarily worked with distribution to resellers, B2B distribution (Business-2-Business distribution). However, as end consumers increasingly move towards digital marketplaces such as Amazon and CDON, the Group has increasingly begun to distribute directly to end consumers, B2C distribution (Business-2-Consumer distribution). Both Amo Toys and NGS, for example, have agreements in place with Amazon for sales on their platform.

Bergsala - 40 years of collaboration with Nintendo

Bergsala has been distributing Nintendo's products, both hardware, and software, in the Nordic region since 1981, and since 2012 Nintendo's products have also been distributed in the Baltics. Bergsala handles everything from transport, logistics, warehousing, marketing, and sales to resellers and service commitments. Bergsala has sold over 19 million Nintendo games and nine million consoles since its inception. The business leg is thus wholly dependent on Nintendo for its continued operations. Bergsala is the only distributor of Nintendo products in the Nordic and Baltic countries. Bergsala is, to a large extent, also affected by the “console cycle” as consoles usually sell strongly at launch and then decrease over time when the next generation of consoles begins to approach. Nintendo's latest console, the Nintendo Switch, was launched in 2017 and is thus fairly early in its console cycle. Nintendo's console bikes have historically lasted 5-6 years. We believe that the pandemic has extended the Nintendo Switch cycle, as more Nintendo Switch 2020 were sold than during the console's launch. We also believe that Nintendo will launch a Nintendo Switch Pro version in 2022, extending the console cycle.

Thunderful Distribution: Bergsala sales '00-'19, SEKm



Source: Redeye Research, company data

PlayStation 5 and Xbox Series X were recently launched and posed a particular threat to Nintendo consoles. Still, we assess that the target group differs quite a bit and that the Nintendo Switch, which can also be a handheld game console, differs significantly from the competition. In addition, Nintendo has many exclusive titles that will only be released to Switch that will continue to drive demand for the console. Nintendo Switch had a market share of 36% in 2019 compared to PlayStation 4, which had 40%. We also consider the proportion of physical distribution to be higher for Nintendo compared to other game consoles. Nintendo consumers have historically preferred physical copies. Thunderful mentions that Nintendo Switch has the highest number of physical games sold in relation to

consoles sold since 1981. Nintendo Switch also has, after three years of sales, taken over the NES as the best-selling console by the number of devices

The competitive situation is pleasant for Bergsala as they are alone in distributing Nintendo products in the Nordic and Baltic countries. The market position is assessed based on Bergsala's sales in relation to the total sales of Nintendo game consoles in Nintendo's regions that are most comparable, which is the EMEA region. Thunderful's goal over time is that sales in the region as part of the total sales of Nintendo game consoles should be approximately 3.5%. The Group points out that the goal is aggressive as the population in the Nordic region is relatively small in relation to Nintendo's global addressable market. However, the Nordic region has a history of high adoption rates for gaming consoles, and Nintendo 64 can be used as a reference as the sales share in the Nordic region amounted to approximately 6% of total sales of Nintendo's gaming consoles. The Nordic share of Nintendo Switch sales amounts to approximately 4.3%. **Bergsala accounted for 56% of sales (SEK 1615m) and 62% of EBITDA (SEK 142m) within the Distribution segment, on a rolling twelve-month basis (LTM), corresponding to an adjusted EBITDA margin of 8.8%.**

Nordic Game Supply

NGS distributes game consoles, games, and game accessories such as headsets, keyboards, pointing devices, streaming equipment, game chairs, and various types of merchandise (clothing and accessories) in the Nordic region. **The brand portfolio consists of 40 different brands. NGS is responsible for distributing the well-reputed gaming companies Take-Two and Konami's physical distribution in Sweden, Norway, and Denmark. The remaining customers include the most well-known gaming accessories manufacturers such as HyperX, Razer, and Thrustmaster.** NGS distributes merchandise from well-known titles such as Fortnite and Minecraft. Just as for Amo Toys, the share of net sales from private labels has increased for NGS. The company currently has seven own brands, such as Piranha, Wistream, and Legend. We believe that this trend will continue and that the margin will increase in the future. **NGS accounted for 28% of sales (SEK 796m) and 23% of EBITDA (SEK 52m) on a rolling twelve-month basis, corresponding to an adjusted EBITDA margin of 6.6%.**

The market for gaming accessories enjoys structural tailwinds thanks to the growing trend, e-sports, and has grown with a CAGR of ~8% between 2017-2019 in the Nordic region.

Amo Toys

Amo Toys distributes toys in all Nordic countries and has a long history from when the Finnish subsidiary Amo Oy was founded in 1965. Amo Toys has about 70 brands in its portfolio and has sold over 19 million toys since its inception. Among the company's external distribution partners, MGA is the largest, accounting for more than half of Amo Toys' sales. Examples of some brands are L.O.L., BabyBorn, and Little Tikes. Of the 70 brands, Amo Toys has six own brands. Some examples are Happy Friend, Happy Baby, and Junior Home.

The Nordic toy market is fragmented after Top-Toys (BR Toys and Toys "R" Us Scandinavia) went bankrupt in December 2018. The main competitors are Maki, Tactic, Procy, VN Legetøj, Micki, and ToyRock. Amo Toys, VN Legetøj, and ToyRock are the companies that have historically achieved good profitability. Thunderful's assessment has to do with more efficient processes regarding warehousing and logistics and offering a comprehensive and competitive range of brands and products that retailers want to buy. **Amo Toys accounted for 16% of sales (SEK 463m) and 15% of EBITDA (SEK 35m) on a rolling twelve-month basis, corresponding to an adjusted EBITDA margin of 7.6%.**

M&A

Selective M&A

Acquisitions have proven to be a strong trend in the gaming industry, and it does not seem to be slowing down. During Q1'21, 78 acquisitions were made in the gaming sector, and the total purchase price amounted to USD 14.3bn, compared to 50 acquisitions with a total value of USD 2.5bn in Q1'20. The data above excludes the acquisitions of Glu Mobile, Gearbox, Adjust, and other acquisitions that were not closed during the period. Two hundred eighteen acquisitions were made in the global gaming market in 2020, and the total purchase price amounted to USD 12.6bn.

The increasing consolidation of the gaming market has pushed up the prices of the acquired companies. However, we believe that Thunderful has several advantages compared to many other acquiring companies.

- Thunderful's publishing operations mean that the company comes into contact with many companies that may be potential acquisition candidates. Of course, it is easier to approach these companies if they already have an established relationship.
- Through the publishing business, Thunderful holds data on what game sales look like for their partners. With that data, the company can evaluate the attractiveness of potential acquisition candidates.
- The Group is part of the entire value chain for the gaming market. This means that acquired objects gain stronger financial muscles behind them and gain access to a distribution network, marketing, quality testing, knowledge sharing regarding the market, and technical issues such as knowledge of, among other things, game engines. They also get good relationships with partners such as Microsoft and Facebook, which makes Thunderful Group an attractive choice for acquisition targets.

Thunderful has a pronounced and clear acquisition strategy based on several pillars:

- **Majority investments:** Thunderful Group offers game developers an entire investment combined with various financing options that suit the seller.
- **Ownership:** Thunderful is looking for dedicated entrepreneurs with the ambition to be long-term members and partners in Thunderful Group. Redeye believes that this is very important for creating long-term value when applying an acquisition strategy. In many ways, creative individuals are acquired, and these are often the recipe behind a successful game developer. Therefore, it is essential to create a good culture and that the companies and entrepreneurs that join Thunderful have clear incentives linked to shareholders' incentives.
- **Supporting owners:** By joining Thunderful Group, game developers get financial muscles behind them. This means that these people get the opportunity to invest and explore creative ideas that they previously may not have had the chance to previously, as many smaller game developers have limited capital.
- **Platform expertise:** Thunderful has established and good relationships with platform owners, which benefits acquired companies.
- **Decentralized governance:** Thunderful does not intend to integrate new businesses fully but wants personal ownership and entrepreneurship to remain.
- **Strategic guidance and synergy effects:** Thunderful offers acquired companies guidance and knowledge sharing. As the group grows, this gets better and better. Knowledge of different game engines, marketing, game markets, platforms, and consoles are examples of knowledge shared between the various game developers within the group.

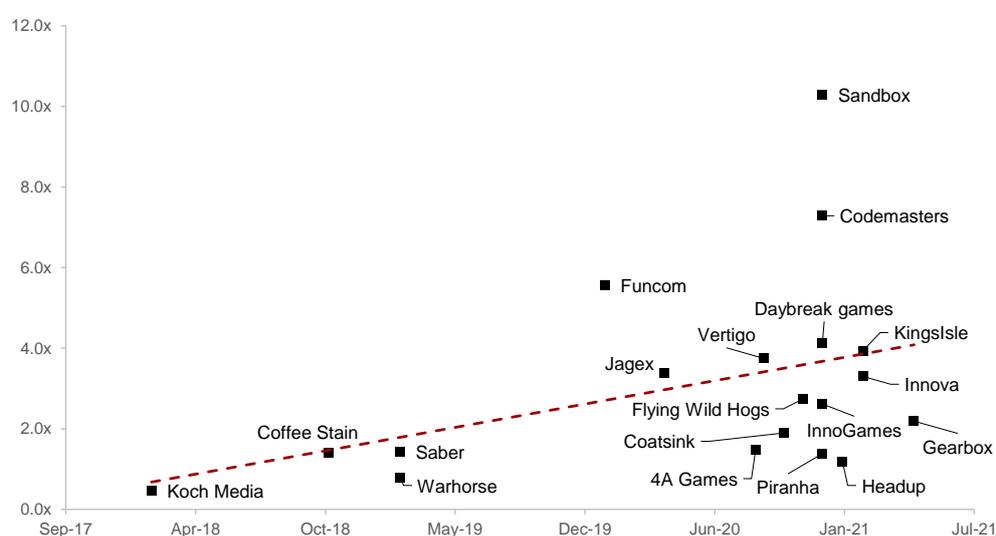
In addition to these pillars, we believe that the company has a sound approach to acquisitions. The acquisition objects must fit into the Group's current product portfolio, and the IP (playful and child-friendly games, for example) and the corporate cultures must fit together. We also assess that the company does not acquire for the sake of acquiring and that they do not compete with price when bidding for a company. Therefore, we believe the valuation multiples will be kept low in the future due to Thunderful's prudent approach.

M&A transactions

The multiples in both charts are based on the initial purchase price, and no account has been taken of earn-outs. As most of the acquisitions we have included have had an earn-out component, the diagram becomes partly misleading. Still, as all the information regarding the earn-out structure is not available, it is challenging to estimate multiples based on this. It would also be misleading to base multiples on the earn-out price and historical financial data, as earn-outs are only paid against the company achieving or exceeding specific financial targets. The important thing is the trend development and not the valuation in absolute terms. We have excluded acquisitions of mobile gaming companies as we do not believe Thunderful will focus on this type of company and that the multiples are not indicative of gaming companies targeting the PC and console markets.

The transactions we have included indicate that the EV / Sales multiples have steadily increased due to the increasing consolidation of the gaming market and the average of all transactions amounts to EV / Sales 3.1x. Since August 2020, the average amounts to 3.7x, while the average up to the same period amounts to 2.1x.

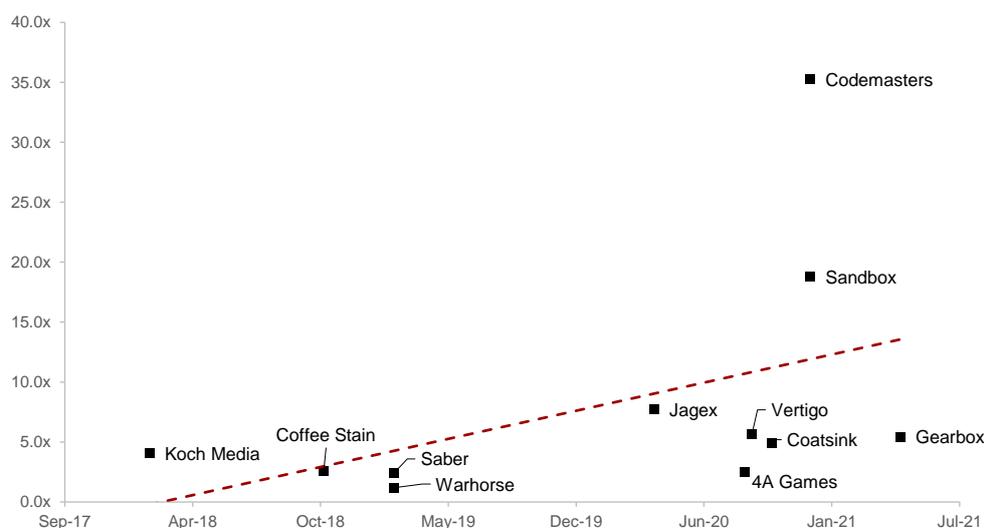
Gaming market M&A: Historical EV/Sales multiples



Source: Redeye Research, company data

The transactions we have included indicate that the EV / EBIT multiples have also increased (see the image below). The average of all transactions amounts to EV / EBIT 8.2x. Since August 2020, the average amounts to 14x, while the average up to the same period amounts to 3.4x. However, some outliers increase the average, more specifically Sandbox Interactive and Codemasters. Sandbox Interactive was a reasonably small acquisition, and the multiple can therefore be misleading as the company is growing strongly. In our opinion, Codemasters was a costly acquisition of EA (also a large purchase, they paid USD 1.2bn for the company). **Acquisitions of Headup and Coatsink were made at low multiples, seen in both EV/Sales and EV/EBIT.**

Gaming market M&A: Historical EV/EBIT multiples



Source: Redeye Research, company data

Coatsink — A study in how to make acquisitions

Thunderful Group acquired Coatsink on October 2, 2020. The initial purchase price amounted to GBP 23m, plus an earn-out component that could potentially lead to the total maximum purchase price amounting to GBP 65.5m. The earn-out component is only paid out in exchange for Coatsink meeting financial targets in 2021 and 2022. We estimate that Coatsink's EBIT will grow in line with Thunderful's internal targets for Thunderful Games, which is 25% per year. Coatsink's EBIT amounted to GBP 4.7m based on the Q1-Q3'20 run-rate (we assume this as Coatsink was not reported separately in the Q4'20 report). We estimate that Coatsink's EBIT amounts to GBP 5.8m and GBP 7.3m in 2021 and 2022, which means that the earn-out purchase price amounts to GBP 17.4m and that the total purchase price amounts to GBP 40.4m.

Coatsink: Earn-out structure, GBPm

Earn-out period	x EBIT	% shares	% cash	EBIT estimates	Earn-out
January - June 2021	2.0x	0%	100%	2.9	5.8
July - December 2021	1.5x	50-100%	50-100%	2.9	4.4
January - December 2022	1.0x	50-100%	50-100%	7.3	7.3
Total				13.1	17.4

GBPm	EBIT	EV/EBIT
	2020E	4.7
Upfront	23.0	2021E
	2022E	7.3
Earn-out	17.4	2022E
Total	40.4	Total:
		17.7

Source: Redeye Research

Coatsink is an excellent example of how Thunderful applies its acquisition strategy.

- The acquisition was made at what we believe are low multiples. EV / EBIT 5.6x in 2022E provided that Coatsink meets the financial targets required for earn-outs. EV / EBIT 4.9x at Q1-Q3'20 run-rate, if no account is taken of earn-outs. This illustrates what the acquisition might cost if Coatsink does not reach the financial targets required for the earn-out component to be paid out. If Coatsink does not live up to expectations, the total purchase price will not be high either. If they live up to expectations, it is not very high either.
- The founders and key people in Coatsink became shareholders in Thunderful after the deal. However, they retain a large part of their incentive. The acquisition was paid with 50% shares and 50% cash.

- We experience that both companies' cultures and products are similar and fit well together.

Firepower — Dry gunpowder

M&A is an outspoken strategy for Thunderful Group. It is hard to predict M&A in financial estimates; we have instead chosen to make a scenario analysis to get a picture of how much impact acquisitions can have on Thunderful's results if the ceiling for net debt is reached. Today, the Group strives to have an interest-bearing net debt in relation to adjusted EBITDA below 1.5x. We estimate that adjusted EBITDA amounts to SEK 419m at the end of 2021E, which translates to a maximum net debt of SEK 629m. As the company had net cash of SEK 310m at the end of Q1'21, this means that the company has an M&A firepower of approximately SEK 1153m at the end of 2021E, given our assumption that the company is expected to have a cash flow after maintenance CAPEX of approximately SEK 215m.

M&A Firepower (SEKm)	
FCF 2021E	264
Maintenance CAPEX	-49
Adj. EBITDA 2021E	419
ND/Adj. EBITDA @ 1.5x	629
ND today	-310
Total	1153

Source: Redeye Research
57 per share.

We believe that the company will acquire partly with the help of its shares, not only to be able to acquire even larger companies but also because Thunderful wants the acquired entrepreneurs to be on the journey for a long time and that their incentives are aligned with that of the shareholders. The diagram below shows how large the M&A firepower can be depending on the extent to which Thunderful chooses to pay with its shares and how much dilution will be and how many new shares will be added. This is based on a share price of SEK

Share				
Equity	Firepower	increase (m)	Dilution	Total shares (m)
20%	1441	5.1	7%	74.0
30%	1647	8.7	11%	77.6
40%	1922	13.5	16%	82.5
50%	2306	20.2	23%	89.2

Source: Redeye Research

The tables below illustrate how much that can be added to Thunderful's EBITA at the end of 2021E, which amounts to SEK 391m, expressed as a percentage and in absolute numbers, based on which EV/EBIT multiple is paid and to what extent Thunderful chooses to pay with its shares. Acquisitions can thus add approximately 31-74% to Thunderful's EBITA at the end of 2021E or SEK 120-288m. This is conservatively calculated as we assume that the acquisitions are made on EV/EBIT multiples of 8-12x, which is high in terms of historical acquisitions in the market and compared to Thunderful's previous acquisitions.

Addition to Thunderfuls EBITA 2021E (SEKm)						Addition to Thunderfuls EBITA 2021E						
EV/EBIT						EV/EBIT						
	8	9	10	11	12		8	9	10	11	12	
20%	180	160	144	131	120	Percentage of acquisition paid in equity	20%	46%	41%	37%	34%	31%
30%	206	183	165	150	137		30%	53%	47%	42%	38%	35%
40%	240	214	192	175	160		40%	61%	55%	49%	45%	41%
50%	288	256	231	210	192		50%	74%	66%	59%	54%	49%

Source: Redeye Research

Source: Redeye Research

The tables below visualize how much EBITA per share expressed as a percentage can potentially be added, considering dilution and how much value per share can be added if acquired EBITA is valued following our SOTP valuation. This assumes that EBITA within Games is valued at EV/EBITA 25x, taking maximum net debt and dilution into account.

Addition to Thunderfuls EBITA/share 2021E							Addition to Thunderfuls SEK/share 2021E						
		EV/EBIT							EV/EBIT				
		8	9	10	11	12			8	9	10	11	12
Percentage of acquisition paid in equity	20%	43%	38%	34%	31%	29%	Percentage of acquisition paid in equity	20%	44	38	32	28	24
	30%	47%	42%	37%	34%	31%		30%	48	40	35	30	26
	40%	51%	46%	41%	37%	34%		40%	52	44	38	32	28
	50%	57%	51%	46%	41%	38%		50%	57	48	41	35	30

Source: Redeye Research

Source: Redeye Research

Game portfolio - Internally developed titles

Thunderful has released 25 game titles based on their own IPs. What stands out is the high average rating on Metacritic, and the overwhelming majority are very high-quality games. The SteamWorld games, which are the company's most valuable intellectual property rights, have an average Metacritic rating of 82 or 85 if you exclude SteamWorld Tower Defense which was released in 2010 and was the first game in the series with an, at the time, unknown IP. At the same time, Image & Form was not as experienced as it is today. We are particularly impressed with the high rating from both players and critics for SteamWorld Heist and SteamWorld Dig 2.

Games Portfolio							
Title	Release	IP owned	Self published	Platform	Monetization	Metacritic	Own IP
SteamWorld Tower Defense	2010	Yes	Yes	Console	Paid	71/100	Yes
Swing King	2010	Yes		Mobile	Paid	78/100	NA
Pinch	2010	Yes	Yes	Mobile	Paid	NA	No
Billions	2011	No		Web	F2P	NA	NA
Anthill	2011	Yes	Yes	Console, mobile	Paid	82/100	Yes
Pinch 2	2011	Yes	Yes	Mobile	Paid	NA	No
Wobbles	2011	No		Mobile	Paid	NA	No
PlayStation All Star Island	2012	No		Mobile	F2P	NA	Yes
Ajapa	2012	No	Yes	Mobile	Paid	NA	No
Fatty	2012	Yes		Mobile	Paid	NA	Yes
Pinch 2 Special Edition	2012	Yes	Yes	Mobile	Paid	NA	Yes
Adventure Time	2013	No		Mobile	F2P	NA	Yes
SteamWorld Dig	2013	Yes	Yes	PC, console, streaming	Paid	82/100	Yes
Stick it to the Man!	2013	Yes		PC, console	Paid	79/100	Yes
Disney 7D	2013	No		Mobile	Paid	NA	No
Chip	2013	Yes	Yes	PC, mobile	Paid	NA	Yes
Disney Doc McStuffin	2014	No		Mobile	Paid	NA	No
Esper	2014	Yes		VR	Paid	80/100	Yes
Zombie Vikings	2015	Yes	Yes	PC, console	Paid	74/100	Yes
SteamWorld Heist	2015	Yes	Yes	PC, console, mobile, streaming	Paid	91/100	Yes
Esper 2	2015	Yes		VR	Paid	83/100	Yes
Zombie Vikings: Stab-a-thon	2016	Yes	Yes	PC, console	Paid	NA	Yes
Shu	2016	Yes	Yes	PC, console	Paid	85/100	Yes
SteamWorld Dig II	2017	Yes	Yes	PC, console, streaming	Paid	88/100	Yes
Gang Beasts	2017	No		PC, console	Paid	68/100	No
Augmented Empire	2017	Yes		VR	Paid	75/100	Yes
A Night Sky	2017	Yes		VR	Paid	NA	Yes
Flipping Death	2018	Yes	Yes	PC, console	Paid	83/100	Yes
Fe	2018	Yes		PC, console, streaming	Paid	73/100	Yes
They Suspect Nothing	2018	Yes		VR	Paid	80/100	Yes
Kingdom Two Crowns	2018	No		PC, console	Paid	84/100	No
SteamWorld Quest	2019	Yes	Yes	PC, console, mobile	Paid	80/100	Yes
Ghost Giant	2019	Yes	Yes	Console	Paid	80/101	Yes
Shadow Point	2019	Yes		VR	Paid	80/102	Yes
FB Rooms	2020	No		Mobile	F2P	NA	No
Transformers: Battlegrounds	2020	No		PC, console	Paid	NA	No
Jurassic World Aftermath	2020	No		VR	Paid	NA	No

Source: Redeye Research & Company Data

SteamWorld — The Crown Jewel

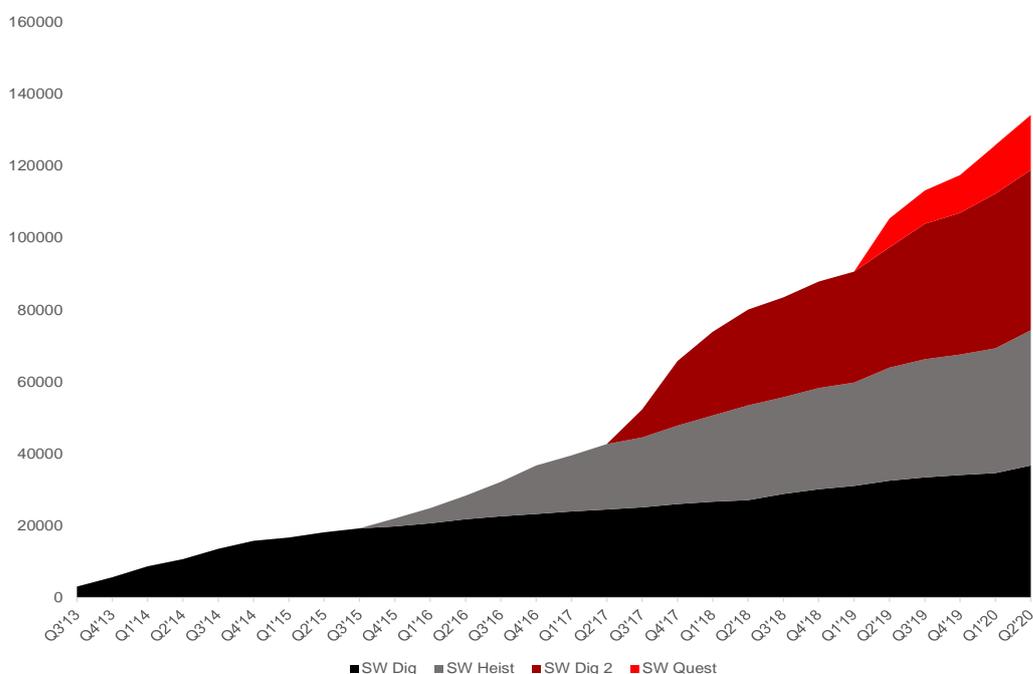
SteamWorld is Thunderful's most successful IP, and the game series has sold over four million copies. All games in the SteamWorld series are developed and published by the game studio Image & Form. The cumulative sales amount to over SEK 130m since the launch of SteamWorld Dig 2013. From the chart, it can be distinguished that revenues are stable and sustainable over time. SteamWorld Dig still generated good revenue in Q2'20 despite the game being launched in 2013. This shows the strength of the IP and that Thunderful can enjoy revenues over a long period after the games have been launched. Thunderful manages to achieve this by releasing DLCs (downloadable

content) and porting games to other consoles or platforms, e.g., Nintendo Switch. For example, the whole SteamWorld catalog was ported to Google Stadia and is now also on its way to Amazon's new platform, Luna.

Another important aspect is that upcoming games generate revenue faster as the IP becomes more well-known. SteamWorld Dig 2 managed to generate as much revenue in two quarters as its predecessor generated in eight quarters. It took five quarters for SteamWorld Dig 2 to generate as much sales revenue as it did for the first game in five years. The old games also sell better as the IP becomes more well-known. Thunderful has done an excellent job of porting the games to other platforms, which has resulted in the older games being able to generate revenue over a long period.

We are impressed by the great variety between genres for the different games in the SteamWorld series, and we applaud Thunderful's courage and creativity. It's easy to bet on a secure card and make sequels based on its predecessors' same concept. But Image & Form has chosen to take some risks. The positive thing is that the opportunity now exists for several sequels within the various SteamWorld games - Dig, Heist, and Quest. Making sequels is easier as assets from previous games can be transferred, such as game engine, game mechanics/game system, characters, and environments. In addition, it is already a proven and working concept.

Thunderful Group: SteamWorld, cumulative revenue per quarter (SEKk)



Source: Redeye Research, company data

SteamWorld Dig (2013)



SteamWorld Dig is a 2D platform adventure game in the spirit of "Metroidvania / Dig Dug," which takes place in a small western mining town, Tumbleton. The game's goal is to dig through the Tumbleton mine, and on the way, you encounter puzzles, traps, and enemies. The game was initially launched for the Nintendo 3DS but has been internationalized to several different markets and ported to PC, PS4, PlayStation Vita, Wii U, Xbox One, Nintendo Switch, and

Google Stadium. Thunderful has managed to generate revenue from SteamWorld Dig for a long time.

Release date: Augusti 2013
Estimated budget: USD 1.5-5m
Metascore rating: 82/100

Estimated sales: 1.75m copies, based on SteamSpy and Gamstat, which excludes sales from Nintendo Switch. We believe that the game sold well on the Nintendo Switch as the game fits the format and Nintendo's user base well. It is not impossible that the game sold in two million copies.

Selling price: USD 9.99

SteamWorld Heist (2015)



SteamWorld Heist is a 2D turn-based strategy game set in space. The player controls Captain Piper Faraday, a smuggler and pirate who recruited a robot gang to embark on a space adventure. The game is about boarding enemy spaceships to steal and shoot their way through the spaceship. The game was initially launched for the Nintendo 3DS and then ported to PC, PS4, Playstation Vita, Wii U, iOS, Nintendo Switch, and Google Stadium.

Release date: December 2015

Estimated budget: USD 1.5-5m

Metascore rating: 87/100

Estimated sales: 0.75m copies

Selling price: USD 14.99

SteamWorld Dig 2 (2017)



Steamworld Dig 2 is the sequel to Image & Form's first real success. The game is based on the same principles as its predecessor, but now the player controls Dorothy, looking for the protagonist from the previous game, Rusty. The game was initially launched for Nintendo Switch, PC, PS4, Playstation Vita and later ported to Nintendo 3DS, Xbox One, and Google Stadium.

Release date: September 2017

Estimated budget: USD 1.5-5m

Metascore rating: 86/100

Estimated sales: 0.75m copies

Selling price: USD 19.99

SteamWorld Quest (2019)



Steamworld Quest is a turn-based role-playing game with elements of "deckbuilding." The game was initially launched for the Nintendo Switch and was launched shortly after that for PC and Google Stadium.

Release date: April 2019

Estimated budget: USD 1.5-5m

Metascore rating: 81/100

Estimated sales: 150k copies on Steam. As there is no data for the Nintendo Switch and the game is not available for other consoles, it is difficult to estimate sales. However, it is essential to note that sales for SteamWorld Quest exceeded those for SteamWorld Dig (first game) and SteamWorld Heist during the first five quarters. We estimate that SteamWorld Quest sold for approximately SEK 15m in the first five quarters and that SteamWorld Dig and SteamWorld Heist sold for approximately SEK 13.5m during the period.

Selling price: USD 19.99

Pipeline — Internally developed titles

The list of upcoming game launches is long and filled with titles that we believe have great sales potential. Thunderful plans to launch two games in the calendar year 2022 and two games in 2023 based on its own brand SteamWorld. We suspect that one of these is SteamWorld Dig 3, as the two predecessors have sold well and that a sequel to SteamWorld Heist is underway.

Thunderful Group: Game release schedule	Publisher	IP-owner	Platforms	Distribution	Release Year
Lost in Random	EA	Own	PC, consol	Digital	H2'2021
TBA	Thunderful	Own	Streaming	Digital	H2'2021
Jurassic World Aftermath Part 2	TBA	Universal	VR	Digital	H2'2021
The Gunk	Thunderful	Own	PC, consol	Digital	H2'2021
TBA	Thunderful	Own	PC, consol	Digital	H1'2022
TBA (SteamWorld game)	Thunderful	Own	PC, consol, mobile	Digital	H1'2022
TBA (SteamWorld game)	Thunderful	Own	PC, consol, mobile	Digital, physical	H2'2022
TBA	Coatsink	Own	PC, consol	Digital	H2'2022
TBA	Coatsink	Shared	PC, consol	Digital	H2'2022
TBA (SteamWorld game)	Thunderful	Own	PC, consol	Digital	2023
TBA (SteamWorld game)	Thunderful	Own	PC, consol	Digital	2023
TBA	TBA	Own	PC, consol	Digital	2023
TBA	TBA	Own	PC, consol	Digital	2023
TBA	TBA	OWN	VR	Digital	2023

Source: Redeye Research & Company Data

Thunderful has 14 games under development and has launched a total of 37 games. The gaming portfolio has sold over 15 million copies in total. Below is a slightly more detailed description of upcoming games that have been announced.

The Gunk



The Gunk is an adventure game where the player controls a character who discovers a pristine planet full of life. The game is Image & Form's first non-SteamWorld brand in almost a decade. Partnership with Microsoft regarding the game's development, which means that the game will be launched exclusively on Microsoft platforms at launch 2021 (low risk as the development is financed but has an option on the upside as Microsoft has no revenue sharing or reimbursement of development costs). Thunderful publishing is the publisher of

the game and will be responsible for external marketing as Microsoft is only responsible for the marketing in internal channels.

Financing: Fully funded by Microsoft

Revenue sharing: 100% Thunderful

Platforms: Xbox-consols and Windows PC.

Launch: H2 2021

Lost in Random



Lost in Random is an action-adventure game in a fantasy environment with a unique twist where the world is ruled by a dice that controls everyone's fate. The game is based on a new IP that Thunderful wholly owns. The game has been developed in collaboration with EA, which financed the entire development and acted as a game publisher. After EA has regained its investment, Thunderful will receive a market revenue share on the sale. We estimate that revenue sharing

amounts to 40-50%.

Financing: Fully funded by EA

Revenue sharing: 40-50% Thunderful (estimation by Redeye), after EA recouped the investment

Platforms: PlayStation 4, PlayStation 5, Xbox Series X, Nintendo Switch, and PC, via EA's platform Origin and via Steam.

Launch: H2 2021

Jurassic World Aftermath



Jurassic World Aftermath is a VR-based adventure game set on the island of Isla Nublar, following the demise of Jurassic World. The game is about avoiding death and solving puzzles to escape from the island successfully. Jurassic World Aftermath Part 1 was released exclusively for Oculus Quest on December 17, 2020, and has received good ratings from players and critics. The well-known gaming website IGN rated the game 8/10, and the game has a 4.3 / 5 rating on the Oculus Quest Store. Jurassic World Aftermath Part 2 will

be launched during 2H 2021. Milestone payments will be received mainly at launch and a share of the game's sales revenue from launch.

Financing: Fully funded by Facebook

Revenue sharing: 40-50% Thunderful (estimation by Redeye) wjoöe Facebook is recouping the investment. After this, Thunderful receives 90-100% of the revenue from game sales.

Platforms: Oculus Quest Store

Launch: H2 2021

Project Ambition



Project Ambition is a 2.5D design and survival game with a strong focus on multiplayer and co-op. The game is developed and placed by Coatsink and released for PC, console, and Stadia. Coatsink owns the IP and will receive 100% of the revenue from the game sales.

Game portfolio - Publishing

Pipeline

The publishing pipeline is extensive, with 29 titles scheduled to be released between 2021-2022, 15 of which were added in Q1'21 through the acquisition of Headup.

Games Portfolio					
Title	Release	Utvecklare	Genre	Platform	Distribution
Ginga Force	2021	Qute	Shmup	PC, console	Physical
TBA	2021	TBA	Horror	PC	Digital
Natsuki Chronicles	2021	Qute	Shmup	PC, console	Physical
Lonely Mountains: Downhill	2021	Megagon Industries	Racing	PC, console	Physical
Source of Madness	2021	Carry Castle	Action	PC, console	Digital, physical
TBA	2021	TBA	Platform	PC, console	Digital, physical
Moonglow Bay	2021	Bunnyhug	RPG	PC, console, streaming	Digital
TinyShot	2021	Allaith Hammed "ZAX"	Action	PC	Digital
Cardaclysm	2021	Elder Games	Card Combat	PC, console	Digital
Dead Age 2	2021	Silent Dreams	RPG	PC	Digital
The Fabled Woods	2021	CyberPunch Studios	Adventure	PC, console	Digital
Scarlet Hood and The Wicked Wood	2021	Devespresso	Adventure	PC	Digital
Aerial_Knight's Never Yield	2021	Neil Jones	3D Runner	PC,console, mobile	Digital
Lost At Sea	2021	Studio Fizbin	Adventure	PC, console	Digital
Industria	2021	Bleakmill	FPS	PC, console	Digital
Gigapocalypse	2021	Goody Gameworks	Action	PC	Digital
Escape from Naraka	2021	XeloGames	First Person Runner	PC	Digital
White Shadows	2021	Monokel	Puzzle Platformer	PC, console	Digital
Tinkertown	2021	Headup	Multiplayer Sandbox	PC, console, mobile	Digital
TBA	2021	TBA	Strategy	Console	Digital
TBA	2021	Headup	Action	Console	Digital
TBA	2022	TBA	Sport	PC, console, mobile	Digital, physical
TBA	2022	TBA	Adventure	PC, console	Digital, physical
TBA	2022	TBA	"Souls like"	PC, console, streaming	Digital
TBA	2022	TBA	2D Platform	PC, console, streaming	Digital
Hell Pie	2022	Sluggierfly	Platformer	PC, console	Digital
Crowns & Pawns	2022	Tag of Joy	Adventure	PC, console	Digital
TBA	2022	TBA	Puzzle Adventure	PC, console, mobile	Digital
TBA	2022	TBA	Action	PC, console	Digital

Source: Redeye Research & Company Data

Below, we have highlighted some of the titles we think look extra interesting and which we judge have the potential to become well-known IPs and sell well.

Source of Madness



Source of Madness is a side-scrolling action roguelike game in a Lovecraft environment. The tracks are procedurally generated and means that the replayability is very high. The game's design is very beautiful, and the game has received good media attention. The official trailer has over 100,000 views.

Developer: Carry Castle

Publisher: Thunderful Publishing

Platforms: PC and console

Release date: 2021

Industria



Industria can be described as a spiritual successor to Half-Life 2 with BioShock influences. The game is developed by a small team of 4-5 people, and the player is thrown into a parallel universe just before the end of the Cold War. The gameplay trailer on YouTube has almost 200,000 views.

Developer: Bleakmill

Publisher: Headup

Platforms: PC and console

Release date: 2021

Planet of Lana



Planet of Lana was announced at Summer Games Fest and is developed by the Swedish indie studio Wishfully. It's a beautiful hand-painted game with Miyazaki vibes. We do not know a lot about the game but think that the game shows a lot of potential visually, and the game got quite a lot of media attention for an indie title. The title will be Xbox console exclusive but will also be released for PC.

Developer: Wishfully

Publisher: Thunderful Publishing

Platform: Xbox and PC

Release date: H2 2022

Replaced



Replaced is a sci-fi, retrofuturistic, and Bladerunner-Esque 2.5D action platform game that we think looks really cool. Mixes pixels with 3D in an excellent way. AAA of pixel games was our first reaction when we saw the game. The official trailer for the game has received quite a bit of hype, with over 400,000 views on YouTube. The game will be available on Xbox Game Pass on release day but will also be available on Steam, Epic Game Store, and PC.

Developer: Sad Cat Studios

Publisher: Coatsink

Platform: Xbox and PC

Release date: 2022

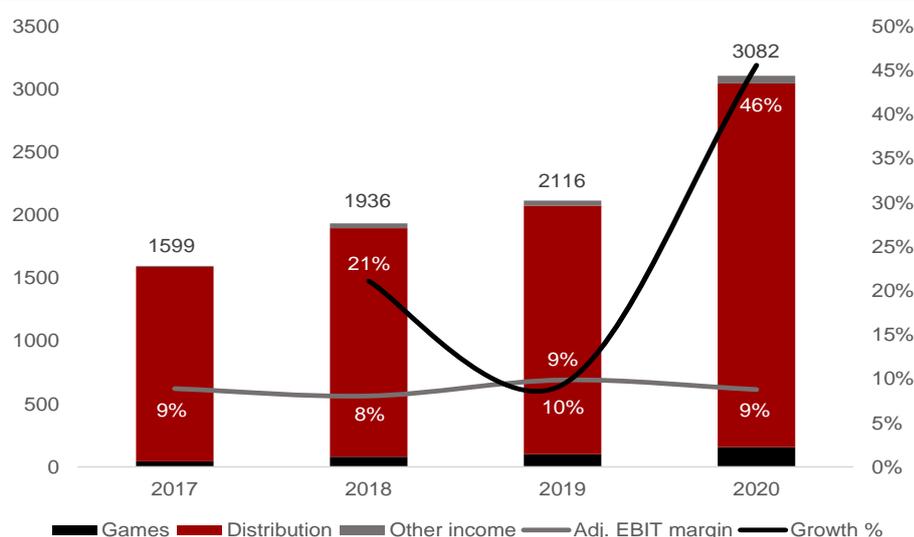
Financial Review

Thunderful Group's operations are divided into two segments, **Thunderful Distribution** and **Thunderful Games**. With its two verticals, the company is active in developing and placement of games and the distribution of Nintendo products, games, game accessories, and toys. The Group is involved in all parts of the gaming market's value chain.

Revenue distribution and profitability

The Group's revenues come mainly from the distribution segment (95% in 2020), where the remaining 5% consists of the Games business segment. Thunderful's revenue grew by 46% in 2020, compared to 2019. Sales grew by a CAGR of 24% between 2017 and 2020 and amounted to SEK 3,082m at the end of 2020. The adjusted operating margin (excluding acquisition-related costs and depreciation) is stable at around 9% during 2017-2020. We expect margins to improve in the future, as Games will account for a larger share of the Group's total revenue (see financial estimates later in the report). Thunderful invests heavily in Games, and its workforce has more than doubled in one year in Thunderful Development (following the acquisition of Coatsink, which added 100 game developers). The pipeline consists of 14 games today, and in addition, the company will probably acquire more game developers in the future.

Thunderful Group: Sales per segment '17-'20, SEKm

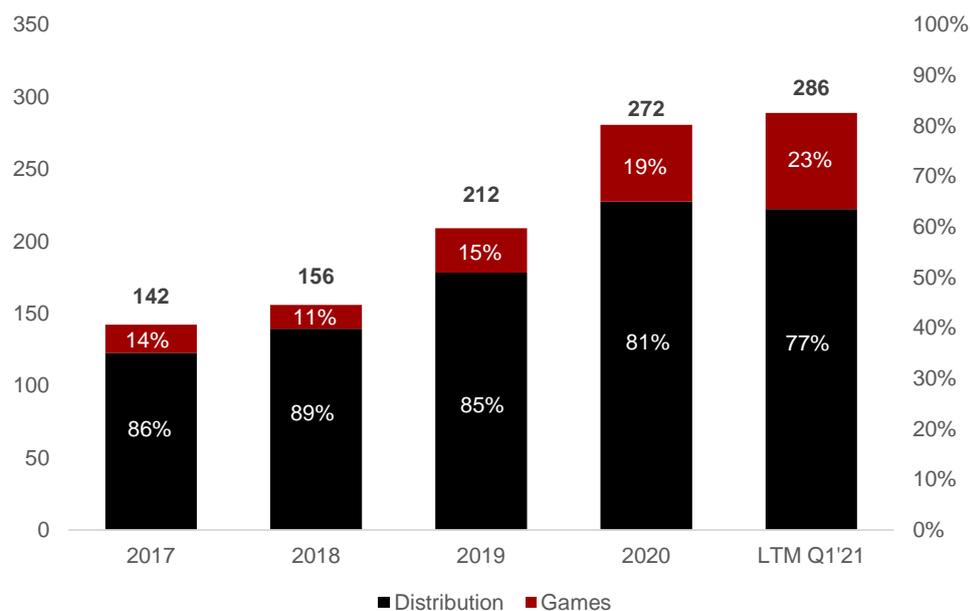


Source: Redeye Research, company data

The Games business segment is more profitable than Distribution and thus accounts for a larger share of EBITDA. Games accounted for 14% of the company's EBITDA in 2017 but have grown in relation to Distribution and accounted for 28% of EBITDA in 2020. Total EBITDA has grown by a CAGR of 24% between the period 2017-2020 and amounted to SEK 319m at the end of 2020.

Games accounted for 19% of the Group's total adjusted EBIT in 2020, and Distribution accounted for the remainder. Adjusted EBIT has grown by a CAGR of 24% during 2017-2020 and amounted to SEK 272m at the end of 2020.

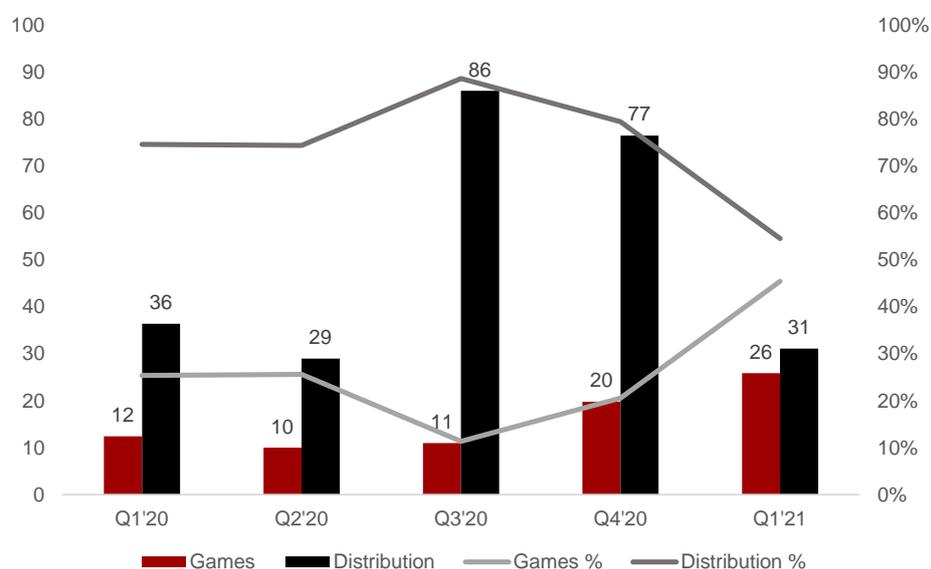
Thunderful Group: Adjusted EBITA per segment, '17-LTMQ1'21, SEKm



Source: Redeye Research, company data

Adjusted operating profit before acquisition-related depreciation, EBITA, provides the best picture of the underlying business' earning capacity. During the last quarter, Q1'21, Games accounted for 45% of total adjusted EBITA, and Distribution thus accounted for 55%. Games will form a more significant part of EBITA in 2021. The trend points in a clear direction, primarily driven by the acquisition of Coatsink. This shows that the strategy of reallocating cash flows from the distribution segment to Games works.

Thunderful Group: Adjusted EBITA per segments (SEKm)



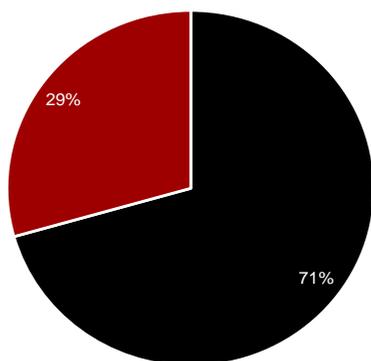
Source: Redeye Research, company data

Proforma

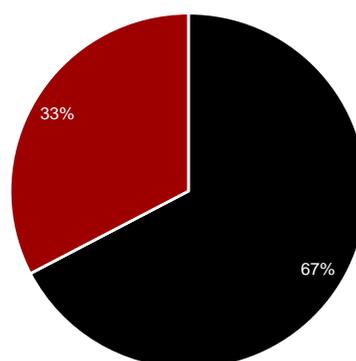
Including the acquisition of Coatsink, which nearly doubled Games' revenue, Games accounts for 32% of EBITDA, 29% of EBITA, and approximately 8% (5% non-pro forma) of sales during the period Q2'2020-Q1'2021 on a pro forma basis. In the two quarters where Coatsink was consolidated, Q4'20 and Q1'21, Games accounted for 21% and 45% of total EBITA, and during rolling twelve months (RTM), Games accounted for 29% of EBITA. We believe this is a better indicator as it is a more extended period, and individual quarters can differ significantly from each other. However, we expect Games to grow in relation to Distribution.

Thunderful Group: EBITA by segment Q2'20-Q1'21 proforma

Thunderful Group: EBITDA by segment Q2'20-Q1'21, proforma



■ Distribution ■ Games



■ Distribution ■ Games

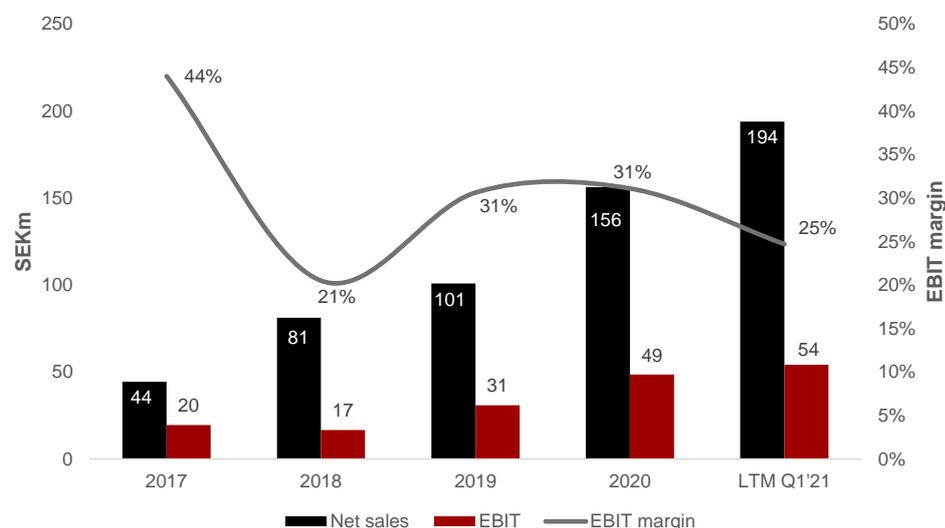
Source: Redeye Research, company data

Source: Redeye Research, company data

Thunderful Games will drive profitability

In terms of revenue, Thunderful Games is a small part of the Group at present, but the company's ambition is to switch to the Games segment. The Games business segment is in turn divided into two business areas, Thunderful Development and Thunderful Publishing. Sales amounted to SEK 194m on a rolling twelve-month basis. **Net sales have grown by a CAGR of 52% between 2017-2020.**

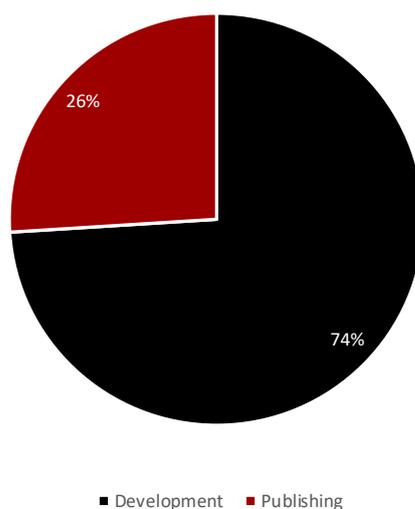
Thunderful Games: Net sales, EBIT and EBIT margin, '17-LTM Q1'21



Source: Redeye Research, company data

Thunderful Development and Thunderful Publishing accounted for 74% and 26%, respectively, of the Games segment's net sales during Q1'20-Q3'20. Thunderful stopped reporting segments separately from their Q4'20 report.

Thunderful Games: Revenue split Q1'20-Q3'20

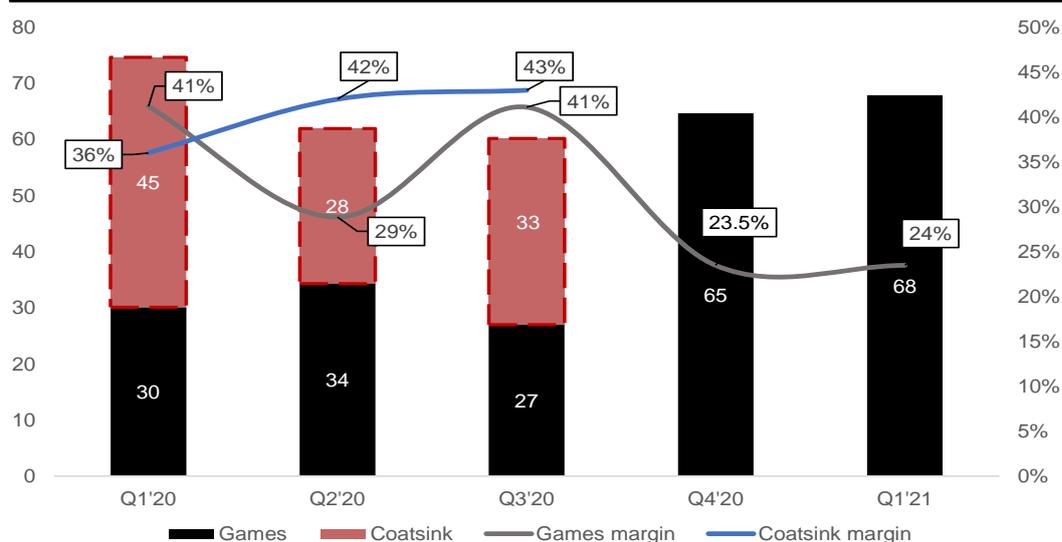


Source: Redeye Research, company data

Thunderful acquired the British game developer Coatsink in October 2020. The sales figures for Coatsink in the chart below are based on the figures that Thunderful presented in connection with the Q4'20 report and the exchange rate GBPSEK of 11.9 during Q1'20-Q3'20. The figures differ from the pro forma figures presented in the

prospectus, as revenue recognition meant that a large part of the revenue from Jurassic World Aftermath was booked in 2019 when the pro forma report was compiled. The figures presented in the Q4'20 presentation better reflect underlying cash flows. **Net sales amount to SEK 262m 2020 pro forma, an increase of 68% compared with the booked result of SEK 156m.** Coatsink is, therefore, a significant acquisition both strategically and financially. Thunderful does not report Coatsink separately from the time of consolidation, so it is difficult to predict how much of Q4'20 and Q1'21 will come from the studio. **But from the Q1'21 presentation, Coatsink added SEK 36m in sales and SEK 20m in adjusted EBITA during Q1'21 and thus accounted for over 50% of sales and 76% of adjusted EBITA within Games.**

Thunderful Games: Sales and EBIT margin, Q1'20-Q1'21 (SEKm)



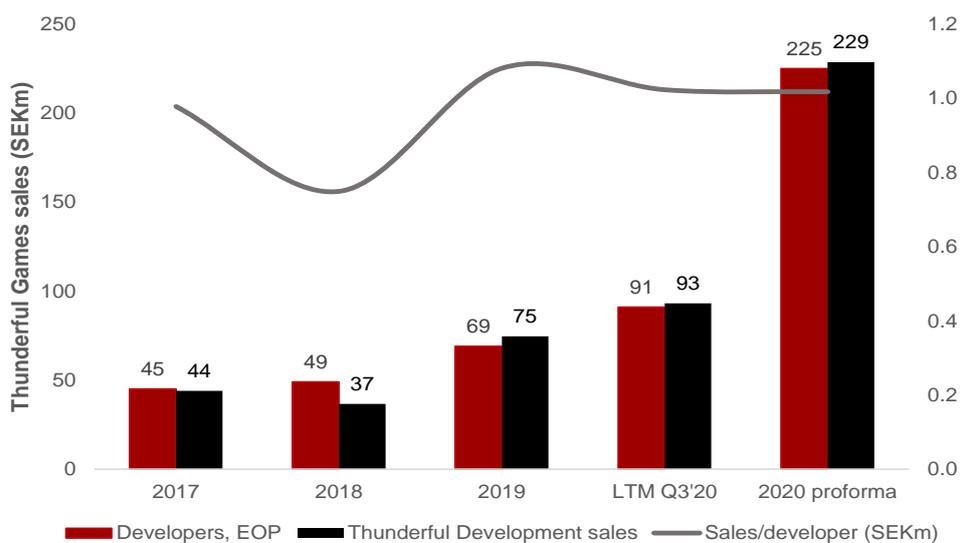
Source: Redeye Research, company data

Thunderful Development is the qualitative Core

Thunderful Development previously consisted of the game developers Image & Form, Zoink, and Guru Games, merged and integrated into the joint company Thunderful Development AB. During Q3 2020, Thunderful Malmö was created, which is also part of Thunderful Development. During Q4 2020, the Group acquired the Swedish game developer The Station and the British developer and publisher Coatsink Software. The Station is also part of the group company Thunderful Development. **Following the acquisitions, the number of game developers amounts to 225 as of December 30, 2020, up from 69 people compared with the same period last year.**

Net sales per developer have varied between SEK 0.7-1.1m during the period 2017-2020. Since Q4'20, Thunderful no longer reports how sales in Development and Publishing are developing. We have estimated that publishing accounted for SEK 33m of total sales of SEK 156.2m during the full year 2020. Thus, we estimate that Thunderful Development amounted to SEK 229m in 2020 on a pro forma basis. We expect that sales per developer will increase in the future as Thunderful's IPs are more well known today, which means that sequels will sell better and that their back catalog also performs better. A growing sales within their back catalog also means that sales per game developer also increase, as the proportion of sales that do not require new development increases in relation to sales from newly produced games.

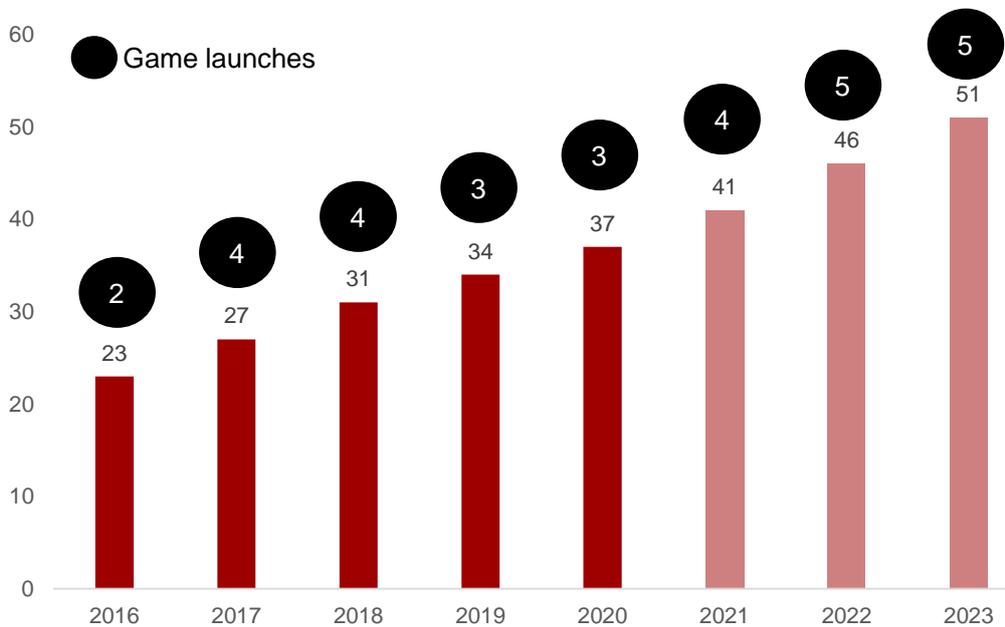
Thunderful Group: Developers, Development sales and sales per developer (SEKm)



Source: Redeye Research, company data

Thunderful Development's primary focus is the in-house development of high-quality single-player games with deep action. Launched games amounted to 37 at the end of 2020, of which 25 games are based on their IP. The company currently has 14 games under development. The main IP is SteamWorld. In total, the games have sold over 15 million copies. Thunderful stands out by making very high-quality games, and the average Metacritic rating for their last ten games is ~ 80 out of 100. The company focuses primarily on developing games for the console and PC market. The diagram below illustrates upcoming game releases and the development of the total number of game releases.

Thunderful Group: Games portfolio and game launches '16-'23E, EOP

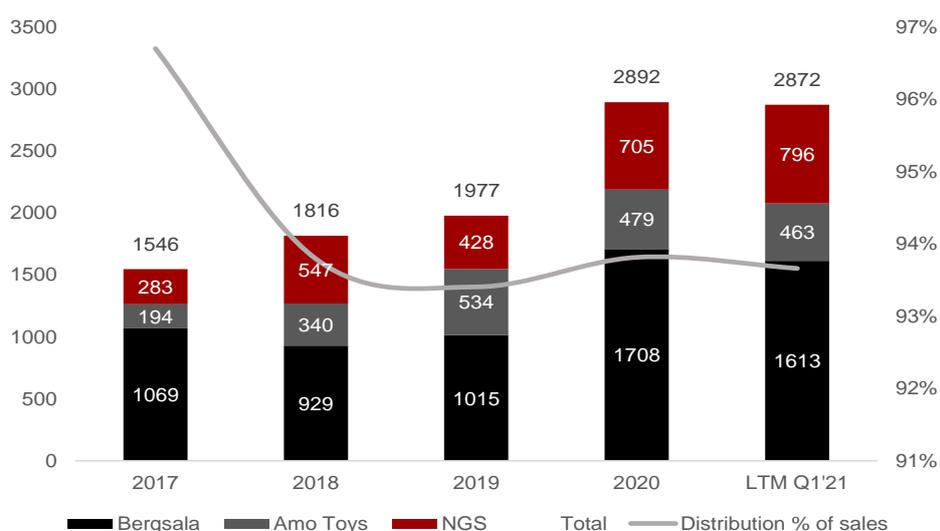


Source: Redeye Research, company data

Thunderful Distribution provides stable cash flows

According to the diagram below, revenues from Thunderful Distribution are distributed between the three business areas and have grown with a CAGR of 23% between 2017 and 2020. Bergsala accounted for the largest share of revenues from Distribution in 2020, with its 59%, while Amo Toys and Nordic Game Supply accounted for 17% and 24%, respectively. Historically, Bergsala has accounted for between 51% and 69% of distribution revenues, with an average of 58%. Amo Toys has climbed from 13% of revenues in 2017 to 27% of revenues in 2019. NGS has increased from 18% of revenues in 2017 to 22% of revenues in 2019. Distribution revenues have steadily decreased as a share of total revenues since 2017, when they amounted to 97%. On a rolling twelve-month basis, Distribution accounted for 94% of total revenue. The growth in Distribution is mainly due to growth within NGS and Amo Toys. And that Nintendo products sold very well in 2020, fueled by the pandemic.

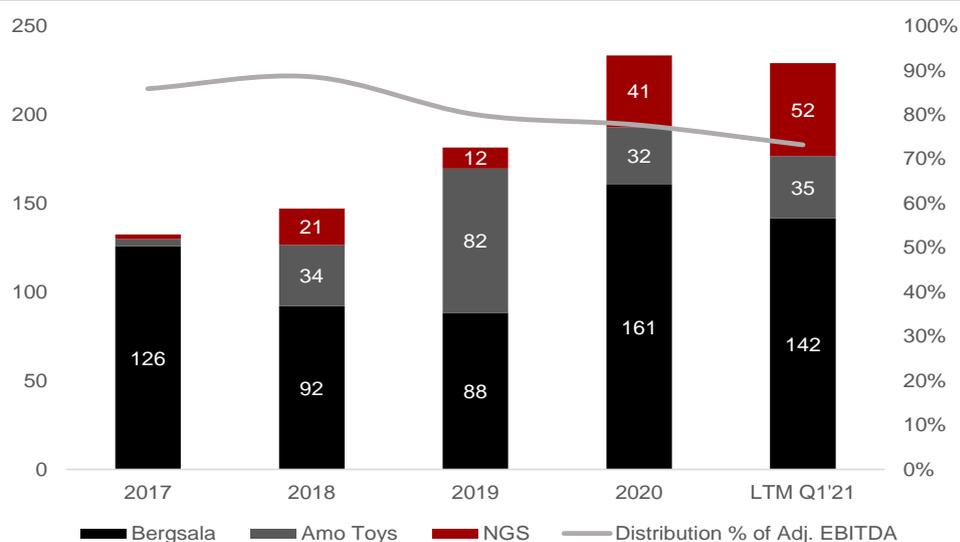
Thunderful Group: Distribution sales composition



Source: Redeye Research, company data

EBITDA from Distribution has had a similar development as sales and has thus decreased as a share of total EBITDA, from 86% in 2017 to 73% on a rolling twelve-month basis. The total EBITDA margin for Distribution has been between 8.1% and 9.2%.

Thunderful Group: Distribution EBITDA composition



Source: Redeye Research, company data

Financial Forecasts

Financial objectives

The company's internal objectives are the following:

Growth

- Thunderful Games aims to deliver annual organic sales growth in excess of 25%, supplemented by additional acquisitions.
- Thunderful Distribution (excluding the Nintendo business) aims to deliver annual organic growth of 5-7%, and the growth of the Nintendo business will be closely correlated with the development of Nintendo and its platform launches.

Profitability

- Thunderful Games strives to deliver an EBIT margin of at least 35%.
- Thunderful Distribution (including the Nintendo business) strives to maintain an EBIT margin of 8%.

Thunderful Games

Sales estimate for the largest games

Lost in Random is the game with the greatest financial potential of the announced games in the pipeline, in our opinion. The game is published by EA Originals and developed by Zoink. Those who like the film director Tim Burton and, more specifically, the movie "A Nightmare Before Christmas" will jump for joy when they see the aesthetics of this game.

Zoink has a solid history of creating cinematic games with great artistic creativity. The downside of the coin has been that the joy of gaming has often come second. The studio's narrow products have damaged even the sales figures in our opinion. Lost in Random seems to be the turning point, as the studio this time listened more to its pair of horses, "Image and Form," where simple gaming joy has always been the strongest guiding star.

It's hard not to glance at Josef Fares Hazelight to get an idea of the potential of this game. Hazelight's latest game, "It takes Two," has been made with the same team at EA Originals as a guide. The game also ends up in the same slot/genre, namely "family games." The big difference is that Hazelight has niched itself in a forced collaboration with two players simultaneously, which of course, creates a relatively unique game design that many appreciate.

Both games that Hazelight has released have sold one million copies in less than a month. And the good sales have continued since then. Recently, there was information that Hazelight's first game has generated a profit of SEK 300 million for the studio for just over three years. This is, of course, just a hint of the potential Lost in Random has. The game still has many unknown variables, such as critics/player ratings and competition around the unknown release date. In addition, Zoink does not have the same commercial track record as Hazelight.

With wide brushstrokes, we estimate that Lost in Random Sells Approximately 0,6 million copies in three months, which would generate SEK 37.5 million after EA deducted investment costs.

The Gunk is the first game in many years that the studio Image and Form develops outside the SteamWorld series. Also, this time, however, the joy of gaming will be put in the first room, in more excellent graphic packaging. From what we know from the game, the so-called gameplay is most reminiscent of Nintendo's Luigi's Mansion. The player walks around with a device that can almost be described as a vacuum cleaner and sucks up evil like the heroes in the old classic movie Ghostbusters. The feeling of sucking up rubbish and turning evil into flourishing goodness is a concept that documented works, in our opinion. For example, Nintendo's latest game, "Luigi's

Mansion 3," has sold 10 million copies. In our opinion, this happens to be one of the best games for Nintendo Switch. At the same time, Mario's brother has the lead role, which makes the game a hopeless object of comparison to estimate the potential sales for The Gunk. The game also comes to Microsoft's subscription service "Game Pass" for free, which will significantly hamper sales.

However, the fact that a game is available for free on Game Pass does not mean that the game will not sell. Many players want to own the game. We will also do some more rough brushstrokes initially and expect the game to sell around 0,15 million copies for the first three months. According to our calculations, this would mean revenue of about SEK 23.6 million for Thunderful.

The Secret Game

We estimate that the secret gaming project, which is financed by a platform owner within streamed games, will generate revenues of between SEK 5-10 million in the first three months. The game is expected to be launched in the second half of 2021.

Overall, we, therefore, expect these titles to generate SEK 70 million in 2021, which amounts to approximately 20% of the total net sales within the Games segment, Which we estimate at SEK 349 million during the period. In addition to this, Jurassic World Aftermath Part 2 is also expected to be launched during the second half of the year. During Q1'21, sales within Games amounted to SEK 68 million without any game releases from Thunderful Development. We, therefore, do not believe that our forecast for 2021E is set too high.

Furthermore, we Expect Thunderful to release two long-awaited sequels in the Steamworld series in the next few years. In 2022, we expect Steamworld Heist 2 to launch, while Steamworld Dig 3 will be released in 2023, according to our estimates.

Capitalized development costs

Thunderful capitalizes development costs related to game development of its intangible assets that do not have external financing from publishing agreements. Concerning the games with a cooperation agreement, the Group receives ongoing income from publishers or platform owners, provided that certain milestones are reached. The company has entered into a publishing agreement with, e.g., EA for Lost in Random and another publishing agreement with an unknown platform owner for an advertised game. The Group has also entered into an exclusive distribution agreement with Microsoft regarding the game The Gunk. The increased costs for these titles have not negatively affected Thunderful's operating profit or cash flows as third parties fully finance the increased investments linked to the above agreements. On the contrary, these agreements have had a positive effect on the consolidated income statement. A favorable operating margin effect has instead been realized as milestone payments have been booked as income. In some cases, this income has exceeded development costs during the period. This means that it is not possible to estimate sales from future game releases via capitalized development costs.

Revenues

Thunderful Games doubled in size through the acquisition of Coatsink, Station Interactive, and Headup. Both current revenues and the number of employees. Coatsink was the largest acquisition with 100 employees and revenues exceeding the Thunderful Games from Q1 to Q3 2020.

We have estimated future game sales based on the personnel cost for game developers and multiplying this by a ratio of return on invested development cost (dROI). Coatsink was consolidated during Q4'20, and the company thus added 100 employees in the form of new developers. And as of December 31, 2020, the number of employees within the Group was 334 people (as of March 31, 2021, the number of employees was 348, of which 221 were in development). Personnel costs amounted to SEK 180m on a pro forma basis, which we use to estimate cost per employee. The cost per employee has fluctuated between SEK 0.54-0.67m during the period 2017-2020. At the same time, revenues from Games in relation to game developers fluctuated between SEK 0.7-1.0m. We expect revenue per game developer to increase over time as dROI also rises.

Thunderful Group: Employees EOP	2017	2018	2019	2020	2021E	2022E	2023E	2024E	2025E
Thunderful Development	45	49	69	225	255	285	315	340	360
Thunderful Publishing		9	11	14	30	31	32	32	32
Thunderful Distribution	88	87	75	75	69	68	68	67	66
Thunderful solutions			13	20	20	20	20	20	20
Total:	133	145	168	334	374	404	435	459	478
Personell cost:	-81	-97	-101	-180	-217	-226	-244	-257	-272
Cost/employee (SEKm)	-0.61	-0.67	-0.60	-0.54	-0.55	-0.56	-0.56	-0.56	-0.57
Games revenue/developer (SEKm)*	1.0	0.7	1.1	1.0	1.4	1.6	1.7	1.8	1.9

Source: Redeye Research, company data

*2020 developer figures has been normalized due to employees being inflated by the Coatsink acquisition

We define dROI as net sales for Thunderful Games year x as a factor of half of the development costs taken in year x-1 and the entire development cost in year x-2. This represents the developers' total development quite well, and the ratio does not become so choppy as we avoid only including development costs for individual years. The development cost consists of the number of game developers times the average salary for the Group and is in the diagram below referred to as "TF Development cost" and our estimates of how much Thunderful Publishing has invested in game projects.

For the calculation of dROI 2020, development costs for Coatsink have been estimated (based on the number of employees at Coatsink and personnel costs from the pro forma figures in the prospectus) in 2018 and 2019 and that only a quarter of these was included in the calculation when Coatsink was consolidated in Q4'20. There is no long history available, but in 2019 and 2020, the dROI amounted to 2.3x and 2.1x, respectively. To calculate the revenue for Games in 2021E, the entire estimated development costs for Coatsink in 2019 are included. We expect that dROI will rise steadily over time as the Thunderfuls IP becomes more well-known and sales of their back

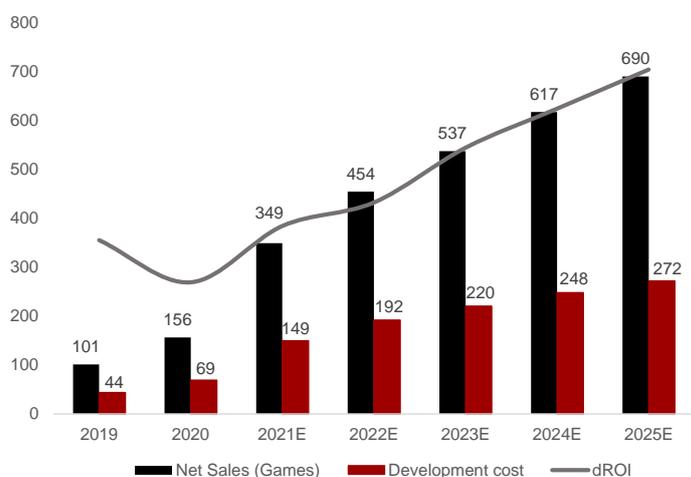
catalog increase. In addition, we believe that Coatsink's exposure to the VR market will also have a positive contribution to dROI development.

Thunderful Games: Revenues estimates	2017	2018	2019	2020	2021E	2022E	2023E	2024E	2025E	CAGR '20-'25e
Thunderful Games revenues	44	81	101	156	349	454	537	617	690	35%
Y/Y-growth		84%	25%	54%	124%	30%	18%	15%	12%	
Organic growth				21%	39%	30%	18%	15%	12%	
TF game developers, EOP	45	49	69	225	255	285	315	340	360	
Y/Y-growth		9%	41%	226%	13%	12%	11%	8%	6%	
Coatsink game developers EOP	42	61	76							
TF development cost, SEKm	27	33	41	122	140	160	176	190	205	
Y/Y growth		22%	25%	194%	15%	14%	11%	8%	8%	
Coatsink game development cost, SEKm		37	47							
dROI				2.3x	2.3x	2.3x	2.4x	2.4x	2.5x	2.5x

Source: Redeye Research, company data

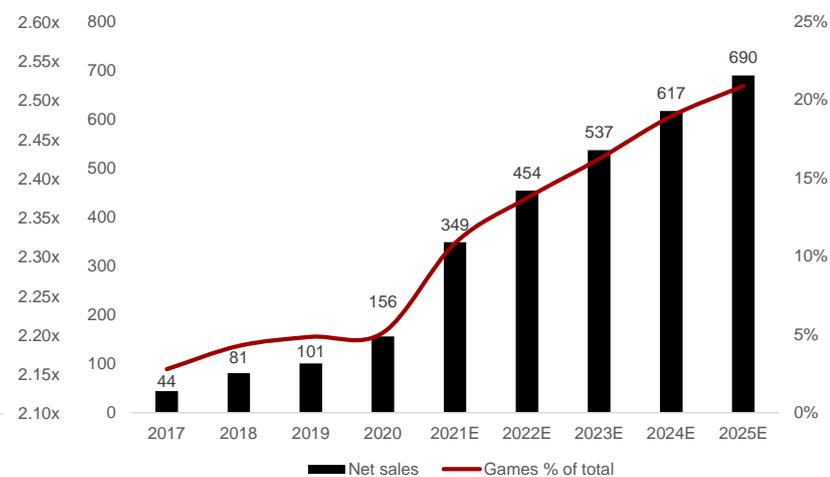
Thunderful has a stated financial target of 25% organic growth per year in the Games segment in the medium term. We estimate the growth of a CAGR of 35% (strengthened due to the acquisition of Coatsink) between 2020-2025E, and we project that Coatsink will grow in line with Thunderful Development during the period. During the period 2021-2025E, we estimate growth with a CAGR of 19%. The pipeline is strong, with many game releases during the period 2021-2023E. We expect Games to account for 21% of total sales in 2025E, from 5% 2020 or 8% in 2020 proforma-basis.

Thunderful Games: Net sales, development cost & dROI



Source: Redeye Research, company data

Thunderful Games: Net sales & games sales as % of total sales

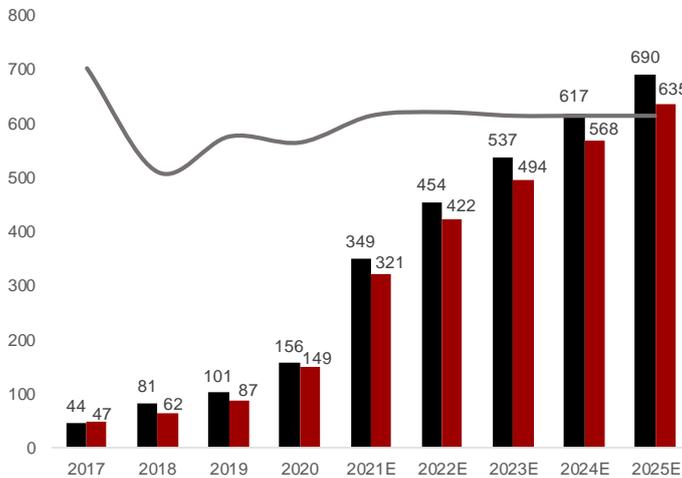


Source: Redeye Research, company data

Profitability

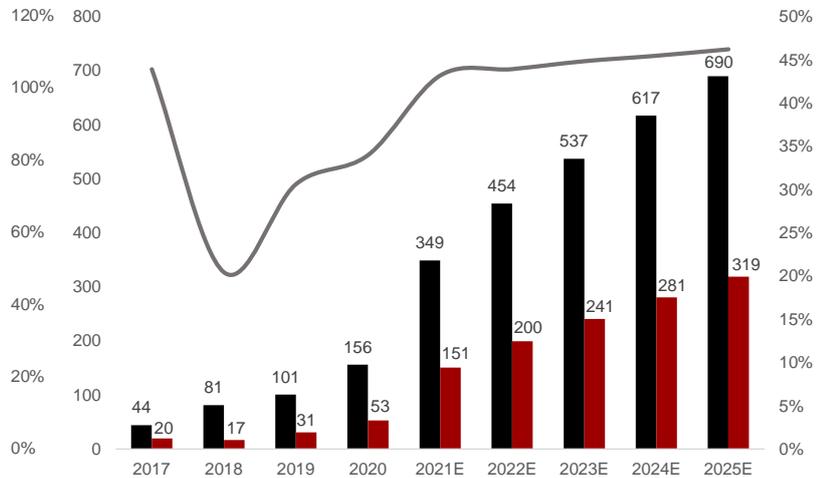
Historically, the gross margin has fluctuated between 85-105%, and we expect a gross margin between 92-93% during 2021E-2025E. The adjusted EBITA margin has been between 20-44%, and we estimate that it will steadily climb towards 45% in 2025E. We estimate that adjusted EBITA amounts to SEK 309m 2025E and that Games will constitute 59% of the total adjusted EBITA.

Thunderful Games: Net sales, gross profit & gross margin, SEKm



Source: Redeye Research, company data

Thunderful Games: Net sales, EBITA & EBITA margin, SEKm

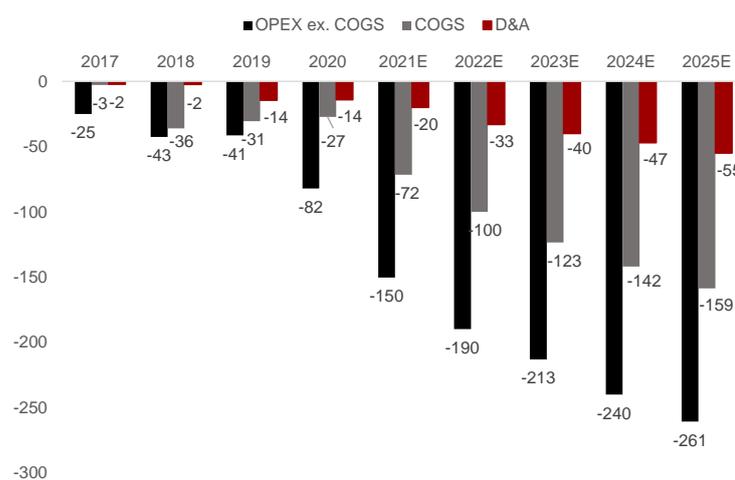


Source: Redeye Research, company data

Costs

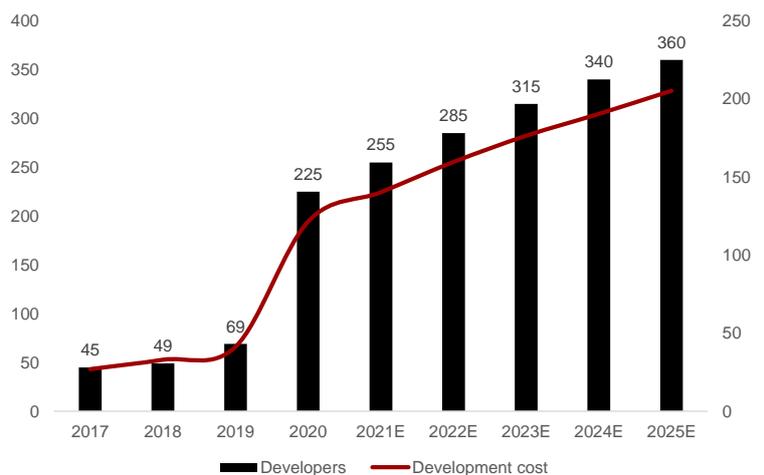
The majority of costs for Games consist of staff costs. We estimate that OPEX, ex. COGS will increase by a CAGR of 26% during 2020-2025E. We also forecast that depreciation and write-downs amount to an average of ~7% of sales during the period. Activated development costs are depreciated over two years after the launch of the game. One-third of the capitalized development costs are amortized during months 1 to 3 after launch. One-third is then written off from months 4 to 12, and the remaining third is written off during the months 13 to 24. Goodwill is impaired annually as it is judged to have an unlimited economic life as long as the trademark or intellectual property right is intact.

Thunderful Games: Operating costs



Source: Redeye Research, company data

Thunderful Games: Developers & development cost



Source: Redeye Research, company data

Thunderful Games P&L

Games: P&L '17-'25E, SEKm	2017	2018	2019	2020	2021E	2022E	2023E	2024E	2025E
Net sales									
Games	44	81	101	156	349	454	537	617	690
Capitalized work	5	17	17	20	44	68	81	93	103
Total:	49	98	118	176	392	522	617	710	793
COGS	-3	-36	-31	-27	-72	-100	-123	-142	-159
Gross profit	47	62	87	149	321	422	494	568	635
OPEX	-25	-43	-41	-82	-150	-190	-213	-240	-261
Adj. EBITDA	22	19	46	67	171	233	281	328	374
D&A									
Completed games	-2	-2	-14	-14	-20	-33	-40	-47	-55
PPA	0	0	0	-5	-19	-19	-19	-19	-19
Total:	-2	-2	-14	-19	-39	-52	-59	-66	-74
Adj. EBITA	20	17	31	53	151	200	241	281	319
EBIT	20	17	31	48	132	181	222	262	300
Margins									
Gross margin	105%	76%	86%	96%	92%	93%	92%	92%	92%
Adj. EBITDA margin	49%	24%	45%	43%	49%	51%	52%	53%	54%
Adj. EBITA margin	44%	21%	31%	34%	43%	44%	45%	45%	46%
EBIT margin	44%	21%	31%	31%	38%	40%	41%	42%	43%
Games % of total sales	3%	4%	5%	5%	11%	14%	16%	19%	21%
Games % of total adj. EBITA	14%	11%	15%	19%	38%	44%	49%	55%	59%
Growth									
Net sales		83%	24%	55%	123%	30%	18%	15%	12%
Adj. EBITDA		-10%	135%	47%	154%	36%	21%	17%	14%
Adj. EBITA		-12%	82%	70%	184%	32%	21%	17%	14%
Total:		98%	20%	50%	122%	33%	18%	15%	12%

Source: Redeye Research

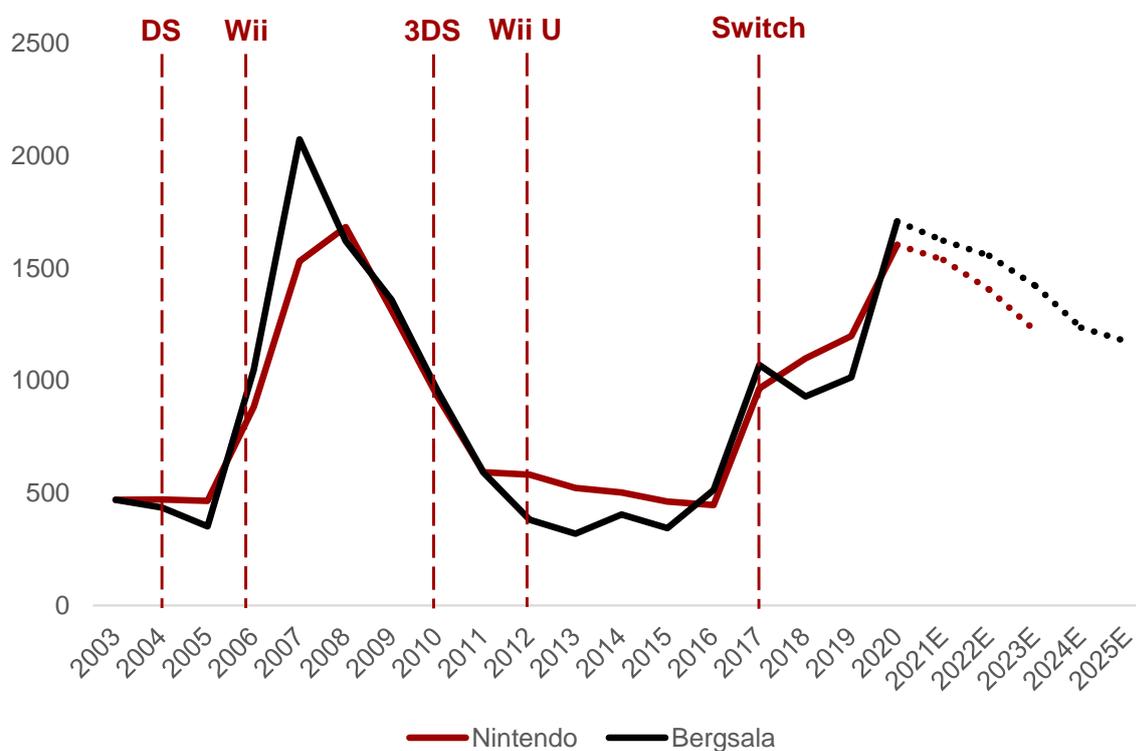
Thunderful Distribution

Revenues and EBITDA

We estimate that total sales within Distribution amount to SEK 2,613m in 2025E, which corresponds to a CAGR of -2% during the period 2020-2025E, and that Distribution constitutes 79% of total sales. At the same time, we expect EBITDA to amount to SEK 232m during the same period, and that Distribution includes 38% of total EBITDA 2025E.

Historically, Bergsala's revenues have correlated with Nintendo's revenues, and we expect this to continue in the future. Nintendo's estimates are taken from FactSet and are based on estimates from 19 analysts who follow Nintendo. We expect sales within **Bergsala** to show a CAGR of -7% between 2020 and 2025E. This is because Nintendo is expected to show negative growth during the period. We forecast an average EBITDA margin of 10% during the period. However, we believe that analysts' estimates may be too pessimistic when it comes to Nintendo, as we believe that the Nintendo Switch Pro may be launched in 2022E, which will extend the console cycle. We also believe that they have taken into account competition from PlayStation 5 and Xbox Series X. We do not believe that the consoles are direct competitors as they fulfill quite different functions. Despite this, our estimates are in line with the forecasts for Nintendo and see it as a particular upside if it turns out that we are right in our assumptions above. The Nintendo sales in the diagram below are indexed against Bergsala's revenues.

Bergsala vs. Nintendo sales '03'25E

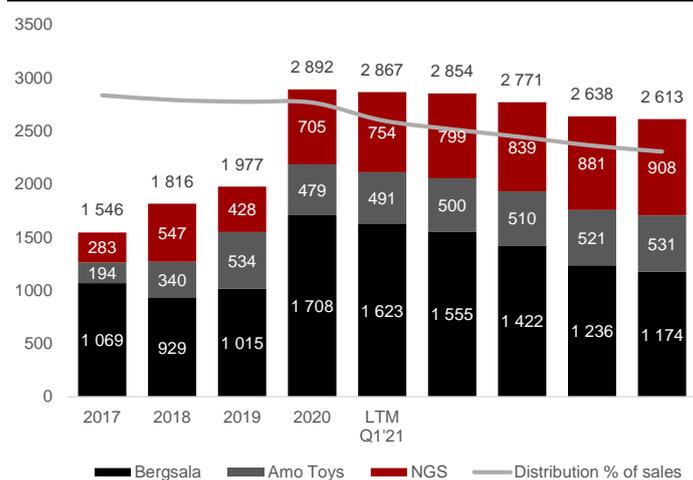


Source: Redeye Research, company data

We estimate that sales within **Amo Toys** will grow by a CAGR of 2% during the same period and that the average EBITDA margin amounts to 11%.

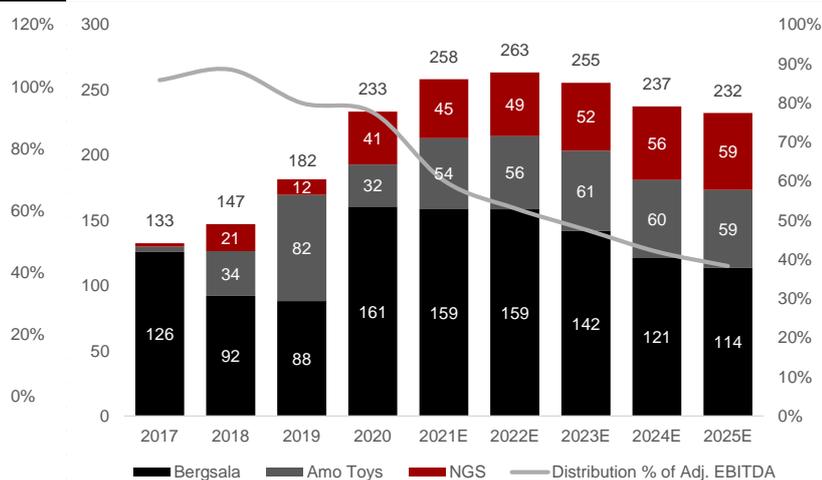
We estimate that **NGS's** sales will grow by a CAGR of 5% during the corresponding period and that the average EBITDA margin amounts to 6%. The strong growth in **NGS** is underpinned by the strong growth with which the market for gaming accessories is expected to grow, driven by, among other things, the trend in e-sports.

Thunderful Distribution: Sales composition '17-'25E, SEKm



Source: Redeye Research, company data

Thunderful Distribution: EBITDA composition '17-'25E, SEKm



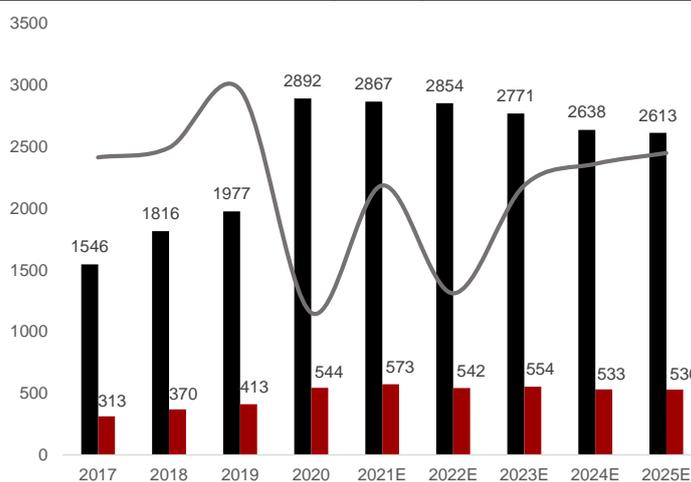
Source: Redeye Research, company data

Profitability

The gross margin has historically fluctuated between ~20-21% and amounted to 19% for the full year 2020 when the share of hardware sales in Bergsala was very high during the year, and a large proportion of hardware sales were game consoles (poorer margin mix in hardware). However, more consoles on the market will lead to more games sold in the future, which will benefit the margin in the future. However, we estimate that the margin will be kept slightly lower during 2022E due to the launch of the Nintendo Switch Pro in the future and that Nordic Game Supply will account for a larger share of sales in the future. Amo Toys has the highest gross margin in Distribution with a gross margin of ~40%, followed by Bergsala, which has a gross margin of ~20%, and NGS has the lowest gross margin of ~2%. The reason why Amo Toys has a higher gross margin is a larger share of its brands, which will also increase within NGS.

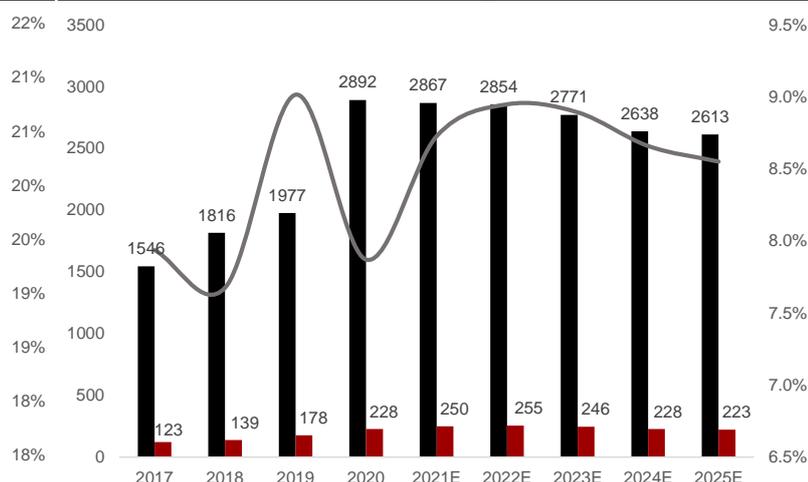
The EBITA margin has fluctuated between ~8-9% historically, and we believe that it will be stable in the upper range in the future. Amo Toys shows a maximum EBITDA margin between ~10-15%, and we estimate that the margin will fall in the future as management believes that operating costs within Amo Toys were at too low a level in 2019. We estimate an average margin of 11.4% during 2021E-2025E for Amo Toys. The EBITDA margin within NGS has historically been between ~3-6%, and we expect an increased margin of an average of 6.2% during the same period, driven by own brands. For Bergsala, we expect that the margin will increase going forward as the proportion of software versus hardware will increase. We expect an EBITA margin of on average ~10% during the same period, compared with ~9% in the last three years.

Thunderful Distribution: Net Sales & gross margin '17-'25E, SEKm



Source: Redeye Research, company data

Thunderful Distribution: Net Sales & EBITA margin '17-'25E, SEKm

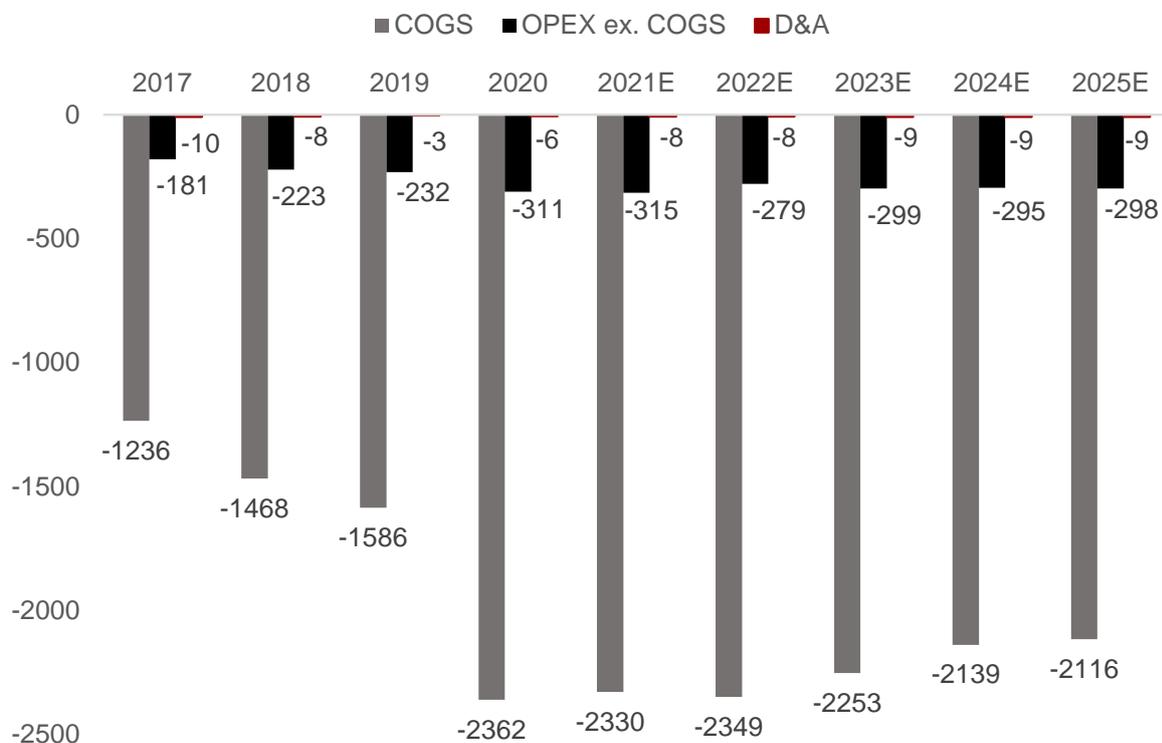


Source: Redeye Research, company data

Costs

The bulk of the costs for Distribution consist, for the most part, of costs of goods for resale. The remaining operating costs consist of other external costs such as sales costs, marketing costs, logistics costs and transport costs, and personnel costs. Depreciation and write-downs within Distribution are mainly attributable to IT systems and other equipment that are depreciated on a straight-line basis over five years.

Thunderful Distribution: Operating costs '17-'25E, SEKm



Source: Redeye Research, company data

Income statement Distribution

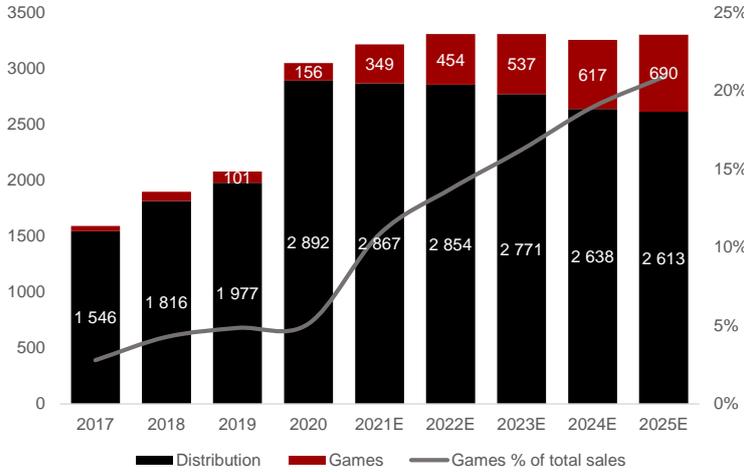
Distribution: P&L '17-'25E, SEKm	2017	2018	2019	2020	2021E	2022E	2023E	2024E	2025E
Net sales									
Bergsala	1069	929	1015	1708	1623	1555	1422	1236	1174
Amo Toys	194	340	534	479	491	500	510	521	531
NGS	283	547	428	705	754	799	839	881	908
Total:	1546	1816	1977	2892	2867	2854	2771	2638	2613
Other operating income	3	22	22	14	36	37	36	34	34
COGS	-1236	-1468	-1586	-2362	-2330	-2349	-2253	-2139	-2116
Gross profit	313	370	413	544	573	542	554	533	530
OPEX	-181	-223	-232	-311	-315	-279	-299	-295	-298
Adj. EBITDA									
Bergsala	126	92	88	161	159	159	142	121	114
Amo Toys	4	34	82	32	54	56	61	60	59
NGS	3	21	12	41	45	49	52	56	59
Total:	133	147	182	233	258	263	255	237	232
D&A	-10	-8	-3	-6	-8	-8	-9	-9	-9
Adj. EBITA									
Total:	123	139	178	228	250	255	246	228	223
EBITDA margin									
Bergsala	12%	10%	9%	9%	10%	10%	10%	10%	10%
Amo Toys	2%	10%	15%	7%	11%	11%	12%	12%	11%
NGS	1%	4%	3%	6%	6%	6%	6%	6%	7%
Total:	9%	8%	9%	8%	9%	9%	9%	9%	9%
Margin									
Gross margin	20%	20%	21%	19%	20%	19%	20%	20%	20%
EBIT margin	8%	8%	9%	8%	9%	9%	9%	9%	9%
Distribution sales composition									
Bergsala	69%	51%	51%	59%	57%	54%	51%	47%	45%
Amo Toys	13%	19%	27%	17%	17%	18%	18%	20%	20%
NGS	18%	30%	22%	24%	26%	28%	30%	33%	35%
Distribution % of sales	97%	96%	95%	95%	89%	86%	84%	81%	79%
Distribution % of Adj. EBITA	86%	89%	85%	81%	62%	56%	51%	45%	41%
Distribution % of Adj. EBITDA	86%	89%	80%	78%	60%	53%	48%	42%	38%
Growth									
Bergsala		-13%	9%	68%	-5%	-4%	-9%	-13%	-5%
Amo Toys		75%	57%	-10%	2%	2%	2%	2%	2%
NGS		93%	-22%	65%	7%	6%	5%	5%	3%
Total:		17%	9%	46%	-1%	0%	-3%	-5%	-1%

Source: Redeye Research

Thunderful Group

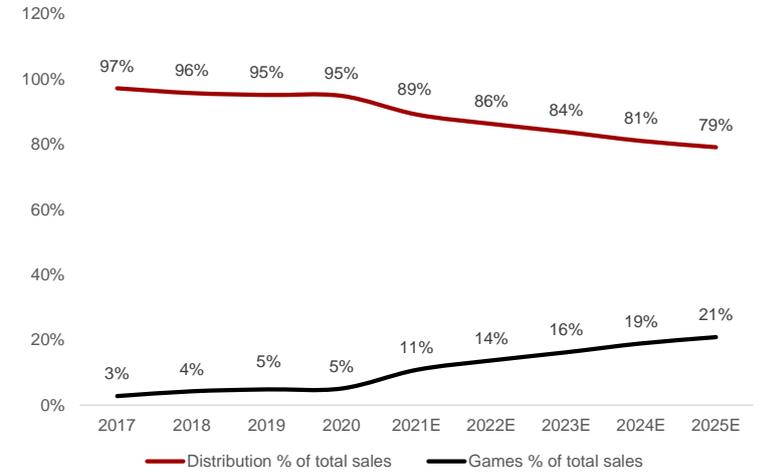
Entirely in line with the company's own goals, we estimate that Games will account for a larger share of the company's future sales, from 3% in 2017 to 21% in 2025E.

Thunderful Group: Sales composition, '17-'25E



Source: Redeye Research, company data

Thunderful Group: Sales composition, '17-'25E

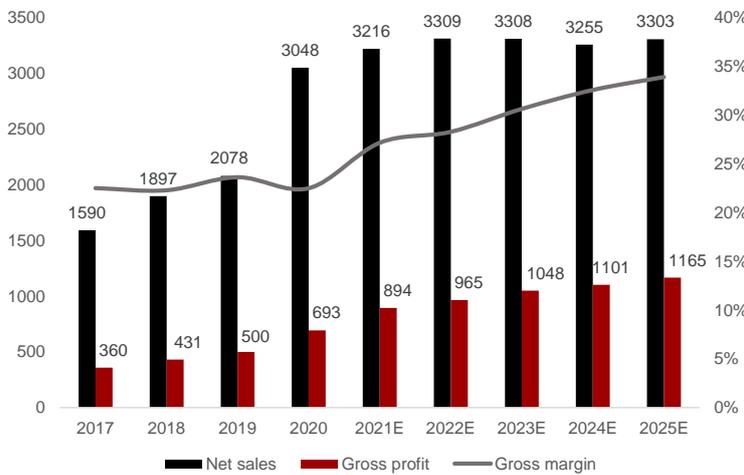


Source: Redeye Research, company data

Profitability

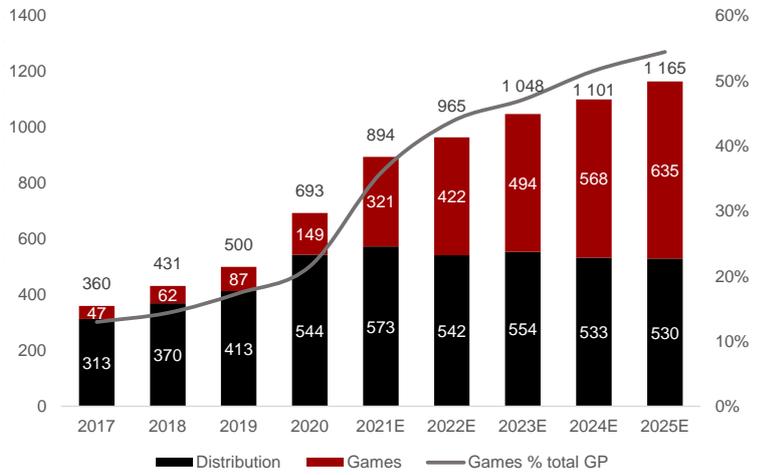
The gross margin will be driven as a result of Games making up a larger share. The gross margin has previously been around ~22.5%. We estimate that it will increase to ~27% in 2021E and that it will steadily increase to ~34% in 2025E, as Games will account for over 50% of the total gross profit.

Thunderful Group: Net sales & gross profit, '17-'25E



Source: Redeye Research, company data

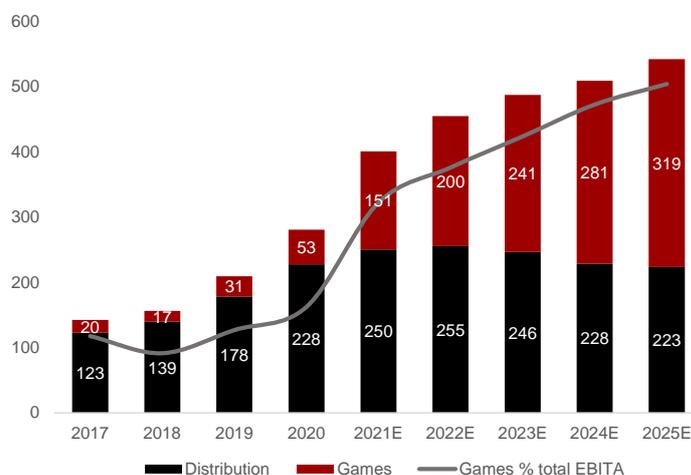
Thunderful Group: Gross profit composition, '17-'25E



Source: Redeye Research, company data

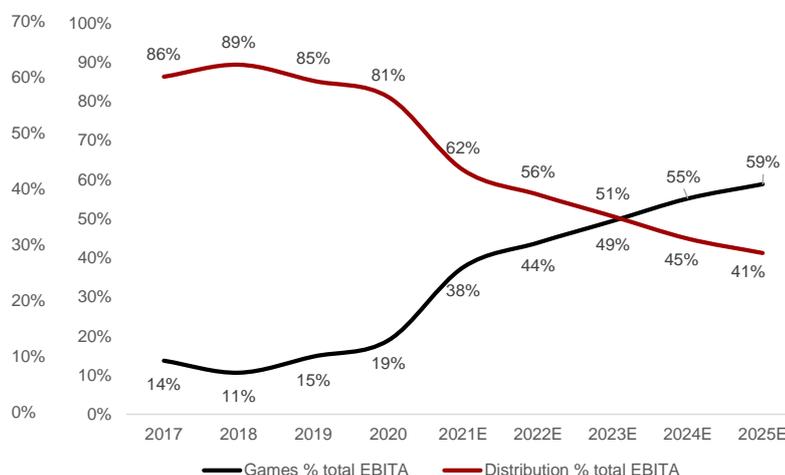
We estimate that Games will account for 59% of EBITA 2025E, up from 14% in 2017, driven by Thunderful's major investments in the segment. We estimate that the EBITA margin within the Group will increase from 8% in 2020 to 16% in 2025E.

Thunderful Group: EBITA composition '17-'25E, SEKm



Source: Redeye Research, company data

Thunderful Group: EBITA composition '17-'25E

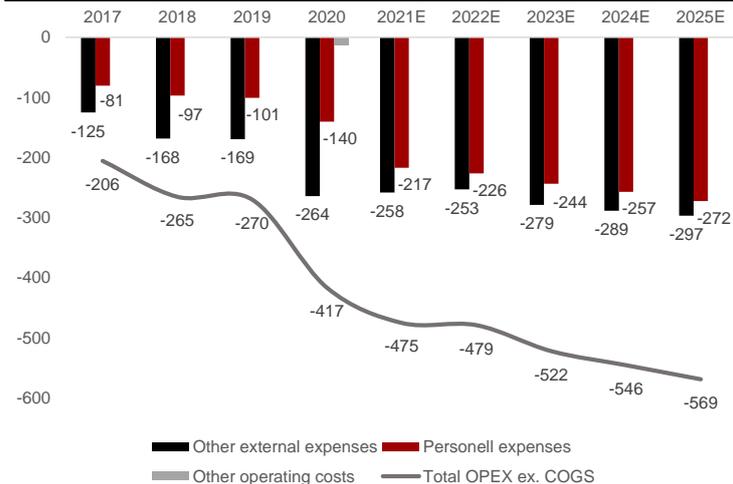


Source: Redeye Research, company data

Costs

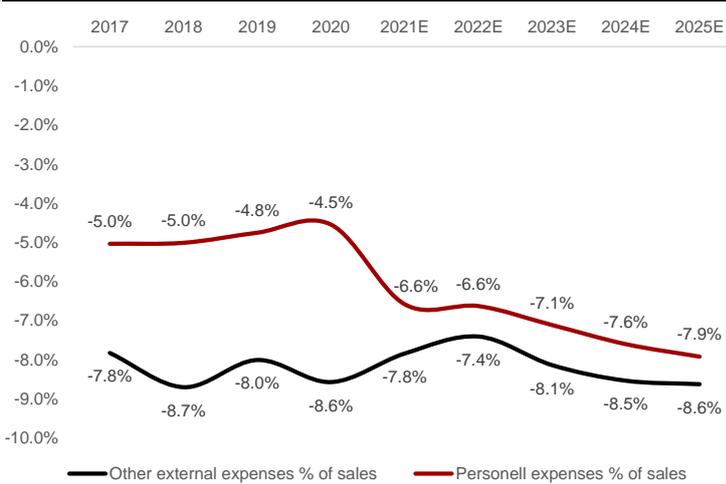
The most extensive cost base for Thunderful Group consists of "other external costs," which consist of marketing costs and logistics costs. We estimate that this will increase as Thunderful releases internally developed games as they will be marketed. At the same time, the cost item becomes smaller as revenues from Distribution decrease somewhat. We also estimate that staff costs will increase as Games will increase the number of employees in the coming years. Personnel costs will rise to approximately 8% of sales in 2025E.

Thunderful Group: OPEX ex. COGS '17-'25E, SEKm



Source: Redeye Research, company data

Thunderful Group: Expenses as a % of sales

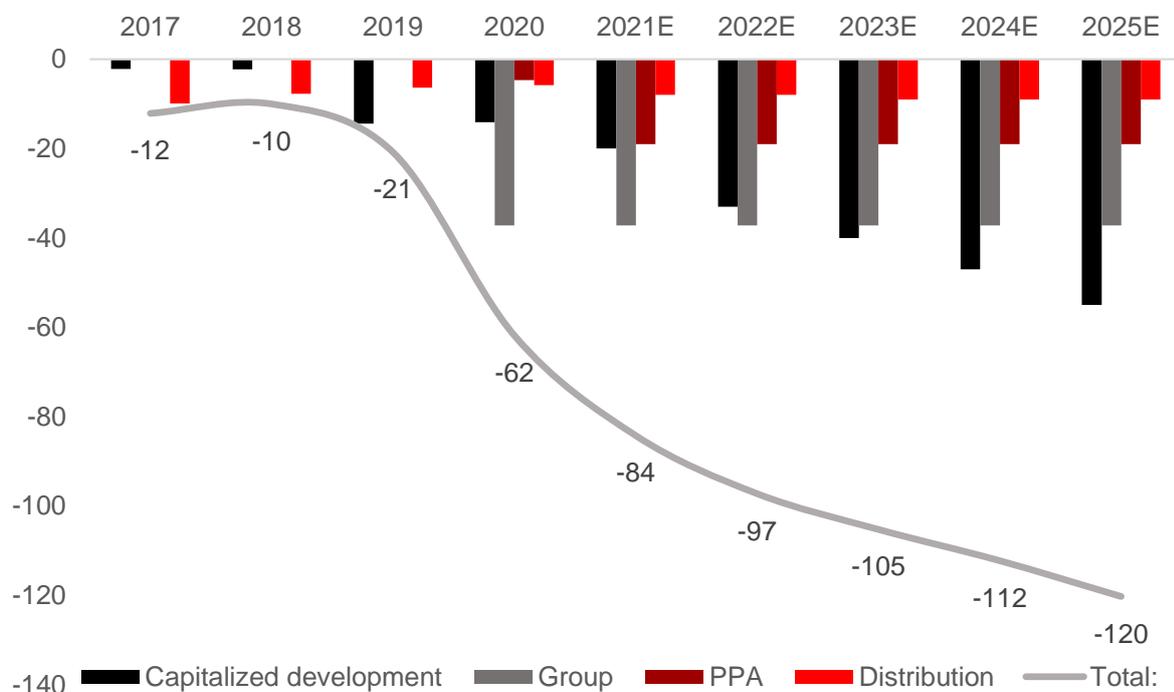


Source: Redeye Research, company data

Depreciation and amortization

Depreciation and amortization will primarily consist of amortization of capitalized development costs and "Group" amortization due to the restructuring of Thunderful Group in 2019, which is amortized on a straight-line basis over ten years. We estimate that depreciation amounts to approximately SEK 9m per quarter. We have estimated the PPA depreciation that arose due to the acquisition of Coatsink at SEK 19m per year. Depreciation of "Capitalized development" estimates we will amount to ~8% of sales within Games.

Thunderful Group: D&A composition '17-'25E, SEKm



Source: Redeye Research, company data

Segment accounting Thunderful Group

Thunderful Group	2017	2018	2019	2020	2021E	2022E	2023E	2024E	2025E
Net sales									
Games	44	81	101	156	349	454	537	617	690
Y/Y growth		83%	24%	55%	123%	30%	18%	15%	12%
Distribution	1546	1816	1977	2892	2867	2854	2771	2638	2613
Y/Y growth		17%	9%	46%	-1%	5%	-3%	-6%	-4%
Capitalized work	5	16.8	16.6	20.2	44	68	81	93	103
Other operating income	3	22	22	14	36	37	36	34	34
Total:	1599	1936	2116	3082	3296	3414	3425	3382	3440
COGS									
Games	-3	-36	-31	-27	-72	-100	-123	-142	-159
Distribution	-1236	-1468	-1586	-2362	-2330	-2349	-2253	-2139	-2116
Total:	-1239	-1504	-1617	-2389	-2401	-2449	-2376	-2281	-2275
Gross profit									
Games	47	62	87	149	321	422	494	568	635
Gross margin	105.2%	76.4%	86%	85%	92%	93%	92%	92%	92%
Distribution	313	370	413	544	573	542	554	533	530
	20.3%	20.4%	20.9%	18.8%	20.0%	19.0%	20.0%	20.2%	20.3%
Total:	360	431	500	693	894	965	1048	1101	1165
Gross margin	22.5%	22.3%	23.6%	22.5%	27%	28%	31%	33%	34%
OPEX ex. COGS									
Games	-25	-43	-41	-82	-150	-190	-213	-240	-261
Distribution	-181	-223	-232	-311	-315	-279	-299	-295	-298
Other				-9	-10	-10	-10	-10	-10
Total OPEX:	-205	-265	-274	-402	-475	-479	-522	-546	-569
Adj. EBITDA									
Games	22	19	45	67	171	233	281	328	374
EBITDA margin	49%	23%	45%	43%	49%	51%	52%	53%	54%
Distribution	133	147	182	233	258	263	255	237	232
EBITDA margin	9%	8%	9%	8%	9%	9%	9%	9%	9%
Other	0	0	3	-9	-10	-10	-10	-10	-10
Total:	154	166	230	291	419	486	526	555	596
Non-recurring items				-14.7	-2.6	0	0	0	0
EBITDA	154	166	232	277	417	486	526	555	596
D&A									
Capitalized development	-2	-2	-14	-14	-20	-33	-40	-47	-55
PPA				-5	-19	-19	-19	-19	-19
Group				-37	-37	-37	-37	-37	-37
Distribution	-10	-8	-6	-6	-8	-8	-9	-9	-9
Total:	-12	-10	-21	-62	-84	-97	-105	-112	-120
Adj. EBITA									
Games	20	17	31	53	151	200	241	281	319
Distribution	123	139	178	228	250	255	246	228	223
Other	0	0	3	-9	-10	-10	-10	-10	-10
Total:	142	156	212	272	391	445	477	499	532
EBITA	142	156	212	257	389	445	477	499	532
EBIT									
Games	20	17	31	48	132	181	222	262	300
Distribution	123	139	178	190	241	255	246	228	223
Other	0	0	0	-46	-47	-47	-47	-47	-48
Total:	142	156	209	215	332	389	421	443	476

Income statement Thunderful Group

Thunderful Group: P&L '17-'25E	2017	2018	2019	2020	2021E	2022E	2023E	2024E	2025E
Net Sales	1590	1897	2078	3048	3216	3309	3308	3255	3303
growth		19%	10%	47%	6%	3%	0%	-2%	1%
Capitalized work	5	17	17	20	44	68	81	93	103
Other operating income	3	22	22	14	36	37	36	34	34
Total:	1599	1936	2116	3082	3296	3414	3425	3382	3440
COGS	-1239	-1504	-1617	-2389	-2401	-2449	-2376	-2281	-2275
Gross profit	360	431	500	693	894	965	1048	1101	1165
margin	22.5%	22.3%	23.6%	22.5%	27.1%	28.3%	30.6%	32.5%	33.9%
Other external expenses	-125	-168	-169	-264	-258	-253	-279	-289	-297
Personell expenses	-81	-97	-101	-140	-217	-226	-244	-257	-272
Other operating costs	0	0	0	-12	0	0	0	0	0
Total OPEX ex. COGS	-206	-265	-270	-417	-475	-479	-522	-546	-569
Non-recurring items	0	0	0	-15	0	0	0	0	0
EBITDA	154	166	230	262	419	486	526	555	596
Adj. EBITDA (ex. NRI)	154	166	230	277	419	486	526	555	596
margin	9.6%	8.6%	10.9%	9.0%	12.7%	14.2%	15.4%	16.4%	17.3%
D&A									
Games	-2	-2	-14	-14	-20	-33	-40	-47	-55
Distribution	-10	-8	-6	-6	-8	-8	-9	-9	-9
PPA	0	0	0	-5	-19	-19	-19	-19	-19
Group				-37	-37	-37	-37	-37	-37
Total:	-12	-10	-21	-62	-84	-97	-105	-112	-120
Adj. EBITA	142	156	209	257	391	445	477	499	532
margin		8%	10%	8%	12%	13%	14%	15%	16%
EBIT	142	156	209	200	335	389	421	443	476
Adj. EBIT	142	156	209	252	372	426	458	480	513
margin		8%	10%	8%	11%	12%	13%	14%	15%
Net financials	-4.4	0.1	0.2	-41.4	0	0	0	0	0
EBT	138	156	209	173	335	388	421	443	476
Taxes	-23	-24	-41	-36	-70	-82	-88	-93	-100
Tax rate	-17%	-15%	-20%	-21%	-21%	-21%	-21%	-21%	-21%
Net profit	115	133	168	137	265	307	332	350	376

CAPEX and cash flow

Thunderful Group's investment needs are very low and have historically been between 0.8-1.4%, which shows the strength of their strategy, not to finance all the gaming investments themselves. The company has a stated goal of reinvesting the cash flow from Distribution to Games. Although they are scaling up the workforce within Games and despite increasing the investment rate in internally developed game titles, there is plenty of room to do so. **We estimate that free cash flow will be strong despite increased investments, and this may be invested in even more internally developed projects, publishing titles, or acquisitions.** This can be seen as an option if the company chooses to reinvest the total cash flow as we have estimated that only part of the cash flow is reinvested and that CAPEX will amount to approximately 3% of total sales. We estimate that the operating cash flow from Distribution amounts to approximately SEK 120-170m between 2020-2025. The background to these assumptions is that we judge the company as conservative but opportunistic, which means that we do not believe that they will invest all cash flow just because they can. They will accelerate slowly, is our belief, but if there is an opportunity to acquire a large company or invest in a large gaming project, they will also do so.

The need for investment in Distribution is very low and comprises "other investments" that mainly consist of investments in IT systems and properties. We estimate that this is kept at a continued low level. We expect cash conversion to average ~55% during the period 2021E-2025E.

Thunderful Group: CAPEX breakdown, SEKm	2017	2018	2019	2020	2021E	2022E	2023E	2024E	2025E
Capitalized development	6	15	17	28	44	68	81	93	103
Acquisitions			3	123	49				
Other investments	7	11	3	4	5	6	7	7	7
Total CAPEX:	13	27	22	156	98	74	88	100	110
Pretax profit	138	156	209	173	335	388	421	443	476
D&A	12	10	21	62	84	97	105	112	120
Tax	-23	-24	-40	-29	-70	-82	-88	-93	-100
Non-cash items		0	-1	2	0	0	0	0	0
Change in NWC	-82	-95	-75	-126	-85	-57	-36	-25	-13
OCF	45	47	115	83	264	347	401	437	483
FCF ex. acquisitions	32	21	96	50	215	273	314	337	373
FCF	32	21	93	-73	166	273	314	337	373
NWC % sales	17%	18%	20%	18%	19%	20%	21%	22%	22%
NWC	265	349	415	541	626	683	719	744	757
Adj. EBITDA	154	166	230	277	419	486	526	555	596
FCF Conversion	21%	12%	40%	-26%	40%	56%	60%	61%	63%
Sales	1599	1936	2116	3082	3296	3414	3425	3382	3440
CAPEX % of sales	0.8%	1.4%	1.0%	5.0%	3.0%	2.2%	2.6%	2.9%	3.2%
CAPEX % of sales ex. acq.	0.8%	1.4%	0.9%	1.0%	1.5%	2.2%	2.6%	2.9%	3.2%

Source: Redeye Research

Financial position

Thunderful has a net cash position of SEK 310 million as of March 31, 2021.

Valuation

Peer valuation

We consider it most appropriate to divide peers into two groups, one for Games and one for Distribution. When it comes to Games, we consider Team 17, 11 Bit Studios, Remedy, and Paradox to be reasonable peers. Team 17 is a relevant peer as they make high-quality indie games that are playful and kid-friendly. 11 Bit Studios are also a high-quality indie and AA developer. We consider Remedy to be a good peer as they are a high-quality developer with few valuable IPs that they take good care of. They have many collaboration agreements with platform owners similar to those that Thunderful Development has.

We believe that EV / EBITA 25x is reasonable for Thunderful Games 2024E (discounted to today) as the median for the peer group is higher (2020 EV / EBIT 33x and 2021 EV / EBIT 29x) even though they are not expected to grow as fast (Thunderful Games sales CAGR '19 -'22E is 65%). Also, in some cases have a higher risk profile as they do not have stable cash flows that provide financial strength and flexibility. Thunderful Games, for example, can afford to postpone game releases as they are not dependent on cash flow in the next few years. We believe that it is most reasonable to value Games a few years ahead as we expect aggressive growth and 2024E specifically because EBITA in Games surpasses that of Distribution. We expect an EBITA margin of ~45% 2020-2022E for Games.

Sales within Distribution have grown by a CAGR '19 -'22E of 13% but are expected to grow by -1% for the period '20 - 22E, with an EBIT margin of ~8.5% during the same period. Distributors such as DistIT and Hasbro are expected to grow between ~5-7% and are valued at EV/EBIT ~15x and ~22x, respectively, which we consider being the best peers. But the analogy falters somewhat as Hasbro owns a large proportion of its own IPs, which is reflected in their higher EBIT margin. In addition, Hasbro and DistIT are expected to grow faster than Thunderful Distribution.

Nintendo, Logitech, and Mattel are manufacturers and own their brands and are therefore not apparent peers to Thunderful. The median multiple for the group is 2020 EV/EBIT 19x, and that is also the average for Hasbro and DistIT. We believe that Thunderful Distribution should be traded at a substantial discount to peers as the dependence on Nintendo is significant, and sales growth is expected to be slightly negative. Nintendo, which is expected to have the same sales development, is valued at 2021E EV/EBIT ~10x. **We believe that Thunderful Distribution should be valued at EV/EBIT ~8x, which is conservative compared to peers. But given the growth and dependence on Nintendo, we consider it reasonable that the valuation is lower than Nintendo's valuation despite the same growth prospects.**

There are no obvious peers to Thunderful Group. The company we consider to be the closest competitor is Embracer Group. Both companies receive revenue from physical distribution, and historically Embracer has also made indie and AA games, and both companies have an outspoken acquisition strategy. However, Embracer is a much larger company, and its pipeline consists mainly of AA and AAA titles today. When Embracer acquired Koch media in February 2018, Koch Media accounted for 87% of revenues. However, a large part of Koch Media's revenues were internal games and digital distribution. Koch Media's adjusted EBIT margin was ~12% at the time of purchase, rumored to consist of a high degree of physical distribution (Thunderful Distributions' EBIT margin tends to be around ~7-8%). Embracer traded at an NTM EV/EBIT ~20x shortly after the acquisition.

The Group is currently valued at 2020E EV/EBIT 17x and 2021E EV/EBIT 11x. We believe that 2021E EV/EBIT 17x is a fair valuation for Thunderful Group, supported by our SOTP valuation. The multiple corresponds to a discount of ~15% against Embracer at the time of the Koch Media acquisition and a discount of ~35% against Gaming peers (excluding 11 Bit Studios as the valuation is very high).

Thunderful Group: Peer table

Company	EV (MSEK)	EV/Sales		EV/EBITDA			EV/EBIT			SALES CAGR 19-22E	EBIT margin		
		2020	2021E	2020	2021E	2022E	2020	2021E	2022E		2020	2021E	2022E
Games													
Embracer	89 188	9.9x	5.6x	25.5x	12.6x	11.2x	34.2x	16.0x	14.5x	49%	29%	35%	35%
Paradox	17 102	9.5x	9.4x	20.3x	15.9x	12.0x	23.8x	25.5x	19.8x	22%	40%	37%	37%
Team 17	10 155	10.4x	9.6x	26.4x	25.9x	23.5x	32.7x	28.8x	26.1x	16%	86%	102%	123%
Remedy	5 612	13.0x	12.1x	37.4x	33.6x	32.7x	40.4x	36.0x	37.5x	14%	32%	33%	30%
11 Bit Studios	2 421	11.8x	18.9x	22.8x	43.4x	38.9x	23.8x	74.7x	70.5x	3%	50%	25%	18%
Median	10 155	10.4x	9.6x	26x	26x	23x	33x	29x	26x	16%	40%	35%	35%
Distribution													
Nintendo	446 718	3.0x	3.4x	8.2x	9.4x	9.7x	8.3x	9.5x	9.9x	3%	36%	35%	36%
Logitech	168 193	3.6x	3.8x	15.3x	22.9x	21.5x	16.4x	24.3x	22.5x	19%	22%	15%	16%
Hasbro	140 535	2.8x	2.7x	11.3x	14.0x	12.7x	21.9x	18.3x	16.1x	7%	13%	15%	16%
Mattel	80 370	1.9x	1.9x	14.2x	11.6x	10.3x	21.1x	16.2x	13.8x	1%	9%	12%	13%
Dustin	11 043	0.8x	0.7x	16.2x	12.4x	9.7x	26.0x	16.9x	12.2x	17%	3%	4%	4%
DistIT	1 228	0.5x	0.5x	11.6x	8.5x	6.8x	15.4x	10.2x	7.9x	5%	3%	5%	6%
Median	110 452	2.3x	2.3x	13x	12x	10x	19x	17x	13x	6%	11%	13%	14%
Peer Group median	60 304	6.4x	6.0x	19x	19x	17x	26x	23x	20x	11%	25%	24%	25%
Thunderful Group	3 596	1.2x	1.1x	13x	9x	7x	17x	11x	9x	17%	7%	10%	11%

Source: FactSet *Redeye Research

SOTP Valuation

We believe that the best way to value Thunderful is to apply a sum-of-the-parts valuation (SOTP). As Games will grow strongly in the coming years, we believe that a SOTP valuation based on our financial forecasts 2024E discounted to today is more representative than assuming the financial situation today. Based on Thunderful Games' qualitative aspects and its growth, we believe that an EV/EBITA multiple of 25x is justified, in line with peers who, in many cases, grow more slowly. See reasoning above.

It is more difficult to find a pure peer for Thunderful Distribution. We believe that an EV/EBIT multiple of 8x is justified as Distribution has grown strongly historically and is exposed to strong underlying trends such as E-sports and Nintendo's popular console, Nintendo Switch. **But despite this, Distribution does not own any well-known brands and is dependent on the collaboration with Nintendo. Therefore, we put a substantial discount to peers, almost 60% discount to distribution peers, and a 20% discount to Nintendo. We believe that the low valuation considers any risks related to the Nintendo agreement and provides a margin of safety. See reasoning above.**

This results in an Equity Value of SEK 6711m or SEK 98 per share. We applied a discount rate of 9% to discount 2024E EBITA until today. The valuation corresponds to an EV/EBITA multiple of 17x for the Group. Games alone is worth SEK 75 per share today, according to our estimates and following our reasoning above.

Thunderful Group								
SOTP Valuation 2024E (SEKm)		Sales	EBITA	EV/S	EV/EBITA	EBITA margin	EV	Per share
WACC	9%							
Games 2024E		617	281	11x	25x	45%	7016	102
Distribution 2024E		2638	228	1x	8x	9%	1827	27
Total 2024E		3255	509	3x	17x	16%	8843	129
Discount factor	0.72							
Discounted	6401							93
Net debt	-310							-5
Equity Value	6711							98

Source: Redeye Research

DCF

We have applied a discount rate of 9% in all three of our valuation scenarios. None of the scenarios below considers further acquisitions, but only consider current operations and organic growth. The discounted cash flow analysis extends to 2030E.

Bear Case 55 SEK

Sales '25E: SEK 3218m
Sales CAGR '26E-'30E: 1%
Terminal growth: 2%
Avg. EBIT-m '26E-'30E: 11%
Terminal EBIT-m: 10%

Base Case 90 SEK

Sales '25E: SEK 3440m
Sales CAGR '26E-'30E: 3%
Terminal growth: 2%
Avg. EBIT-m '26E-'30E: 17%
Terminal EBIT-m: 16%

Bull Case 120 SEK

Sales '25E: SEK 3780m
Sales CAGR '26E-'30E: 7%
Terminal growth: 2%
Avg. EBIT-m '26E-'30E: 18%
Terminal EBIT-m: 18%

Valuation interval

In our final valuation interval, we consider both our SOTP valuation and our DCF valuation, from which we derived similar values from. In our final Bull Case, we have also made relatively conservative assumptions regarding future acquisitions, which explains the difference in Bull Case with the valuation scenario in the DCF modeling above.

Bear Case 55 SEK

In our Bear Case we assume that Thunderful Games does not develop as well as we thought and that the company does not achieve any form of marginal expansion. Sales will barely grow over the next ten years. The company has a similar profile as Today, in ten years.

Base Case 95 SEK

In our Base Case, we have assumed that Thunderful's sales will grow conservatively over the next ten years. The valuation is mainly due to the margin improvement that the games segment stands for. We estimate that the group's maximum EBIT margin amounts to 18% in 2028E. The valuation is also supported by our SOTP valuation, which indicates a value of SEK 98 per share. Which is also the method we think is most appropriate to apply to value Thunderful.

Bull Case 140 SEK

In Bull Case, we assume that Games grows faster than our basic estimates. Several of the upcoming games will be successful and lead to new strong IP. Thunderful builds on these IPs through sequels. Distribution is also starting to grow from 2025E as we estimate that Nintendo will launch a new console somewhere there. In addition to this, we have also made conservative assumptions about added acquisitions within Games. Bull Case in cash flow analysis has not considered any acquisitions.

Summary Redeye Rating

The rating consists of three valuation keys, each constituting an overall assessment of several factors that are rated on a scale of 0 to 1 point. The maximum score for a valuation key is 5 points.

People: 5

The management team is excellent as their track record speaks for itself. They have over 40 years of experience from the Distribution market and 20 years of experience from the gaming market. Management owns 15% of the shares and the Board of Directors owns 25% of the shares, together they own over 40% of the Company. The Company is run by entrepreneurs with relevant experience, that has done it before.

Business: 4

Stable cash-flows from the Distribution segment and growth and a much higher profitability from the Games segment is a very good combination. Thunderful has the luxury to be able to finance its investment in Games from the cash-flows it generates from within the Distribution segment. The end result is a business with stable cash-flows that is expanding into a high-margin business segment.

Financials: 4

Cash-flows has historically been very stable and the company has grown a lot in the past. However, the biggest transformation is yet to come as margins are set to expand due to the investment into the much more profitable Games segment. The mix shift is expected to drive significant cash-flows in the future.

Redeye Rating and Background Definitions

Company Quality

Company Quality is based on a set of quality checks across three categories; PEOPLE, BUSINESS, FINANCE. These are the building blocks that enable a company to deliver sustained operational outperformance and attractive long-term earnings growth.

Each category is grouped into multiple sub-categories assessed by five checks. These are based on widely accepted and tested investment criteria and used by demonstrably successful investors and investment firms. Each sub-category may also include a complementary check that provides additional information to assist with investment decision-making.

If a check is successful, it is assigned a score of one point; the total successful checks are added to give a score for each sub-category. The overall score for a category is the average of all sub-category scores, based on a scale that ranges from 0 to 5 rounded up to the nearest whole number. The overall score for each category is then used to generate the size of the bar in the Company Quality graphic.

People

At the end of the day, people drive profits. Not numbers. Understanding the motivations of people behind a business is a significant part of understanding the long-term drive of the company. It all comes down to doing business with people you trust, or at least avoiding dealing with people of questionable character.

The People rating is based on quantitative scores in seven categories:

- Passion, Execution, Capital Allocation, Communication, Compensation, Ownership, and Board.

Business

If you don't understand the competitive environment and don't have a clear sense of how the business will engage customers, create value and consistently deliver that value at a profit, you won't succeed as an investor. Knowing the business model inside out will provide you some level of certainty and reduce the risk when you buy a stock.

The Business rating is based on quantitative scores grouped into five sub-categories:

- Business Scalability, Market Structure, Value Proposition, Economic Moat, and Operational Risks.

Financials

Investing is part art, part science. Financial ratios make up most of the science. Ratios are used to evaluate the financial soundness of a business. Also, these ratios are key factors that will impact a company's financial performance and valuation. However, you only need a few to determine whether a company is financially strong or weak.

The Financial rating is based on quantitative scores that are grouped into five separate categories:

- Earnings Power, Profit Margin, Growth Rate, Financial Health, and Earnings Quality.

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Disclaimer

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Redeye Rating (2021-08-24)

Rating	People	Business	Financials
5p	30	17	4
3p - 4p	128	110	41
0p - 2p	5	36	118
Company N	163	163	163

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Danesh Zare owns shares in the company : Yes

Tomas Otterbeck owns shares in the company : Yes

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