



Redeye Gaming Guide 2019



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Client company interviews

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

- A) What were the major highlights in 2018 for your company?
- B) What will be your main focus in 2019?
- C) Which trend(s) will have the biggest impact on the industry in the coming years?



Lars Wingefors,
THQ Nordic

A) Highlights in 2018?

On group level, acquisitions of Koch Media and CoffeeStain. Within the group, our great companies took the consolidated revenues to more than SEK 4 billion.

B) Main focus in 2019?

On group level, further acquisitions. Within the group, execution of our game development pipeline (currently 77 projects).

C) Most important trends?

As always, ability to create the content players would like to pay for. To reach this consumer there is a race between really large players having their own platforms, technologies and content. Our strategy is to complement rather than compete with these players.



Jörgen Larsson,
Stillfront Group

A) Highlights in 2018?

Acquiring three studios: Goodgame, Imperia Online and Playa Games and achieving an adjusted EBIT growth of 44% FY o FY.

We achieved this tremendous growth with high stability and predictability - 37 months of consecutive all-time high. That means lower risk.

B) Main focus in 2019?

Continue to deliver synergies in areas such as marketing, distribution and technology

C) Most important trends?

The development of new channels which are opening up for new game audiences. The multi-platform strategy is core to Stillfront and the platform extensions complement one another and provide existing users with new alternatives.



Frédéric Chesnais,
Atari

A) Highlights in 2018?

- FY 2017/18 sales increased 24% to EUR18M and H1 2018/19 sales increased 27% to EUR11m.
- Delivered continued growth in profitability with current operating income of EUR2.3m in FY 2017/18 (13% margin) and of EUR2.2m in H1 2018/19 (20% margin).
- Completed a EUR7.5m capital increase in April 2018.
- Our flagship mobile game RollerCoaster Tycoon Touch continued its strong performance reaching over 20 million downloads

B) Main focus in 2019?

Continue with our current strategy focusing on investments in new mobile games, continuing to develop our licensing activities and prepare the launch of the Atari VCS.

C) Most important trends?

We believe new technological and social trends including cloud gaming, streaming or e-sports will offer a number of exciting growth opportunities for the industry and we believe that anything that makes the gaming experience more appealing and ubiquitous will only be beneficial for us as content owners and distributors.



Rui Casais,
Funcom

A) Highlights in 2018?

2018 was a great year where we beat our profitability record of 2017, acquired 50% of the gaming rights for Conan the Barbarian and several other core intellectual properties, published our first game under the new company strategy and finally, at the beginning of 2019, secured licensing rights for games in the DUNE universe.

We've not only proven that our turnaround has been successful, we're showing the initial results of our strategy and the underlying actions we're taking will boost the growth in years to come.

B) Main focus in 2019?

In 2019 we're establishing a pipeline with more games than ever before of both internal and published titles, growing our core teams to support the planned growth and coordinating with partners for the releases in 2019 and the even larger releases of 2020 and beyond.

With six confirmed games in the pipeline and several others under consideration, we are positioning ourselves in the genres that fit our DNA and where our competitive advantages in IP, Technology and Business/Marketing are strongest.

C) Most important trends?

In the short term we are seeing and will continue to see disruption on the digital storefront space for PC, bringing healthy competition among storefronts with gamers having more alternatives to Steam with their own unique strengths and weaknesses. These new stores are attracting game publishers with uniquely tailored incentives that can be very valuable for some projects.

On the more medium to long term, the rise of streaming services for games has the potential to create a significant shift in how games are experienced, both in terms of availability (by allowing high quality PC/Console experiences on any screen) but also in terms of business model with subscription and advertising revenues growing in importance. These streaming services and digital storefronts will crave high quality content which we are well positioned to provide, and by being involved with these partners from the beginning we can anticipate and plan for any opportunities that might arise.



Tero Virtala,
Remedy Entertainment

A) Highlights in 2018?

Remedy set a new strategy in early 2017 to enable future growth. By the end of 2018, we had successfully achieved related key strategic objectives. Especially the transformation to multi-project model was well demonstrated when at the end of 2018 we had four different game projects at different stages of development, in addition to developing our proprietary Northlight game engine and tools.

The projects had their own individual highlights as well. Control was announced and well received during Sony's PlayStation media briefing at the major games industry event E3 in Los Angeles. Remedy finished the first CrossFire single player campaign and signed a new CrossFire project with Smilegate.

B) Main focus in 2019?

We have now updated our strategy and started the next phase to realize the growth we're looking for. First concrete step is seen when Control will be released for PlayStation 4, Xbox One and PC on August 27th 2019.

C) Most important trends?

The industry keeps on being affected by number of trends. Particularly interesting ones for PC and console gaming will be the new platforms, both hardware and software, as well as the development and introduction of subscription and streaming services. For Remedy this means more opportunities and demand for gaming content, and also new partnership opportunities.



Vladislav Suglobov,
G5 Entertainment

A) Highlights in 2018?

We had a record year in all respects. In the last 6 years, we have increased our revenues 10-fold, and in the last 5 years we grew our earnings by impressive 14 times. You will have to look very hard to find another company that has achieved such results in such short period of time organically, with no acquisitions. 2018 was our record revenue and record earnings and record EBIT margin year, the best year we have had in the lifetime of G5. We also finished the year with the record amount of cash on the account, and we have 560 employees focused on evolving our game portfolio and developing new games - more staff than we ever had. We remain financially stable, sustainable, profitable, and cash flow positive. This creates the best foundation we have ever had for future development of the company.

B) Main focus in 2019?

We remain a portfolio company and our focus is always on managing our portfolio of games in the best possible way. With the highest and best development capacity the company has ever had, we focus on evolving our money-making games and developing the new upcoming games in the best way possible. We have 4 games that we plan to release in 2019, two of them quite soon. As we have communicated to the market, we don't expect to set new records in the first half of the year, but our goal is to do better in the second half, due to the evolution of the existing games in our portfolio and new releases.

C) Most important trends?

I think mobile games industry is in an interesting phase. The developed markets are "at capacity" in terms of the smartphone sales and it's unclear what can drive these higher, if it's even possible. The usage of devices and the spending is growing, but I think marketing strategy in these markets will have to evolve for some companies. On the other hand there is amazing growth in markets like India and Brazil, but monetization is not there yet. Then you have the previously unforeseen difficulties in China which perhaps affects expectations for the whole sector. I believe that in the long run the market overall remains a tremendous opportunity, but the next few years may require adjustment of strategy as the market composition evolves.



Jens Lauritzson,
Flexion Mobile

A) Highlights in 2018?

This was an amazing year for Flexion. We raised long term equity funding, listed the company and prepared for global roll-out. We shifted focus to securing strong IP titles and we executed well above expectations, signing a total of 5 top and 4 mid-tier titles during the last 6 months of our financial year.

B) Main focus in 2019?

To continue our strong momentum in signing world class IP to our channels such as Amazon, Samsung and One Store and to expand the number of channels to further increase the growth potential of the company.

C) Most important trends?

Mobile will continue to grow and dominate as a platform for games. Apple and Google will see their dominance challenged by regulators, D2C players like Epic/Fortnite and by new massive Asian channel players entering the space. Streaming and VR will take longer than people think. Finally, we will see a lot more games coming from Asia to the West. The free2play model was born in Asia and the traditional western developers will start to feel the competition.



Jussi Tähtinen,
Nitro Games

A) Highlights in 2018?

We took a big step forward as a company and developing our self-publishing capabilities. With our latest game launch, Heroes of Warland, we've seen the grounds for scalability through paid user acquisition.

B) Main focus in 2019?

We focus on competitive multiplayer games on mobile. We're currently working on the category of shooter games and with our latest game, Heroes of Warland, exploring the team-based competitive gaming on mobile.

C) Most important trends?

I believe that esports & cross-platform gaming are trends that offer new business opportunities in the coming years. I also believe that we will continue to see new ways of playing games and enjoying gaming related content wherever we are, resulting in increasing popularity and visibility of games as a hobby overall.



Why invest in Gaming

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

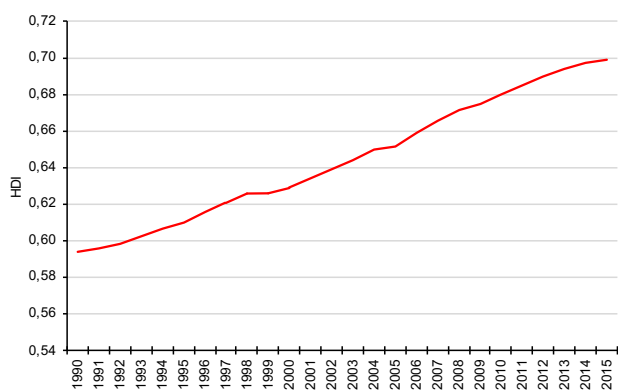
Globally increased demand for free time entertainment

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

For the gaming industry this leads to the following:

- More free time and increased demand for entertainment
- More money to spend on entertainment globally

Human Development Index, world average

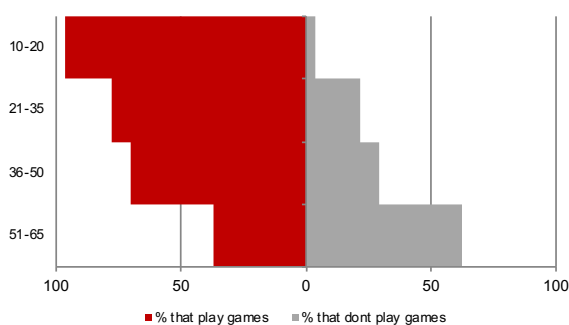


Source: <http://hdr.undp.org>

Gamers come of age

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

% Gamers per age population in the USA

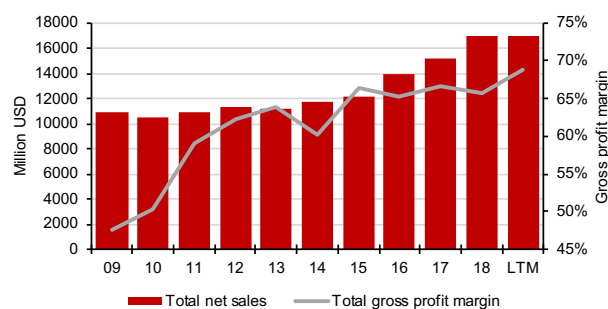


Source: Newzoo, populationpyramid.net & Redeye Research

Digitalization lower cost of distribution and increase availability

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

Aggregated net sales and gross profit of large game developers*



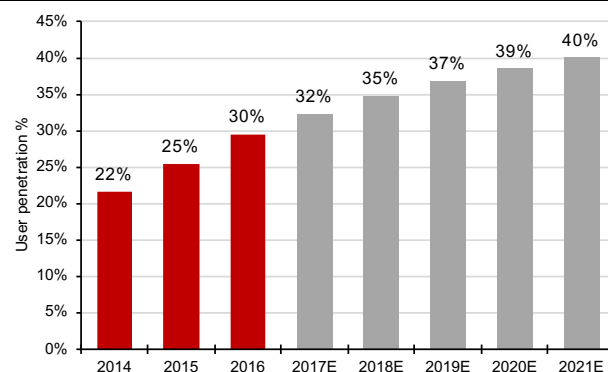
Source: Bloomberg & Redeye Research

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

Smartphone broadens gamer audience

The rise of the smartphone has resulted in a relatively new game genre; Casual games. The reduced "hurdle" for start playing games has also increased the likelihood of "new" gamers trying other more hardcore game genres, thus increasing the gamer audience.

Smartphone user penetration of total population



Source: Statista

Industry description

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

Game Genres

Shooter/FPS

First Person Shooter

Examples: Call of Duty, Battlefield, Doom

Action/Adventure

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

Examples: Zelda, GTA, Tomb Raider, Super Mario Bros

RPG

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

Examples: Witcher, Final Fantasy, Skyrim, Mass Effect

MMORPG

Massive Multi-player Online RPG. Thousands of individuals play online simultaneously. Game environment is constantly active. Paid accounts and in-game purchasing.

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

Strategy/MOBA

Logical and tactical gameplay/multi-player Online Battle Arena. Real-time strategy.

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

Simulation

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

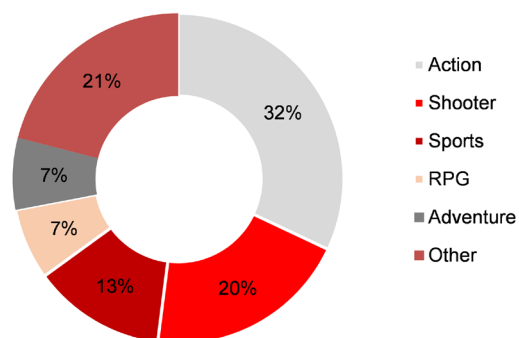
Examples: Sim City, Sims, Farming Simulator

Puzzle

Objective to solve or survive the puzzle. Players intelligence is primary and controller skills are secondary. Tetris invented the sub-genre Match 3 Puzzle.

Examples: Tetris, Candy Crush Saga, Unravel

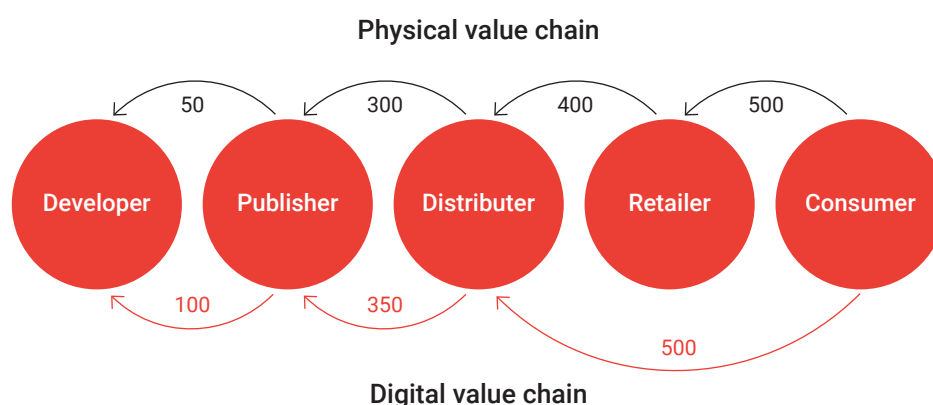
Game genre sales distribution (2017)



Source: Newzoo

Industry value chain

In a simplified, the value chain within the Gaming industry consists of the following players: Developer, Publisher, Distributor, Retailer and Consumer.



Developers

Developers can be divided into three different categories.

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

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

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

A value chain that is changing

There has been a dramatic change from physical distribution to digital distribution.

- Loser: Retailer
- Winner: Distributor

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

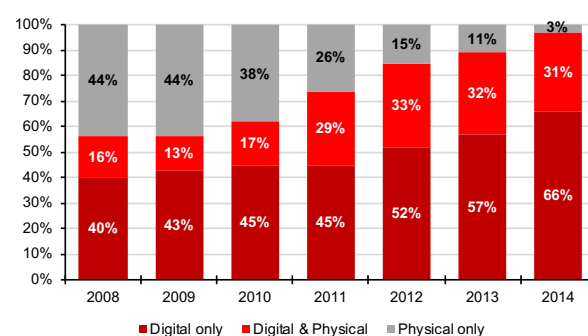
Distributors

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

Publishers

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

Publishing format video games



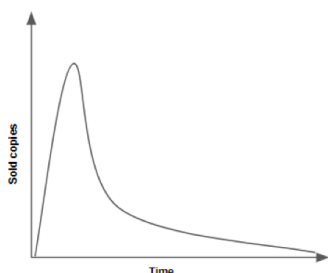
In 2008 roughly 44% of video game were only published in physical format, today no titles are only released none digital.

Revenue models

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

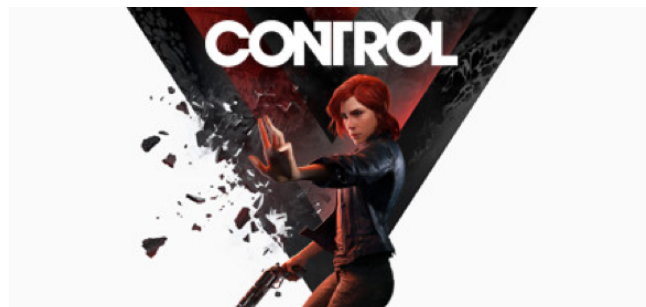
Full game/premium

Traditional model where the customer pays for the whole game up front. Most often about 70% of the lifetime value comes during the first month's post-release.



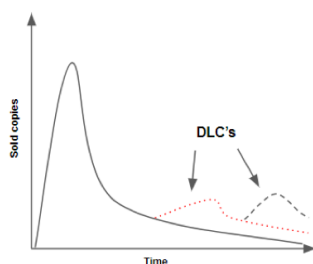
Examples from our Universe:

Control, Metro Exodus, Mutant Year Zero



Game as a Service

Usually extended storyline, new game areas or objects which are distributed digitally by the game's official publisher. Most common so called DLC (Downloadable content).



Examples from our Universe:

Conan Exiles, Payday 2, MX vs. ATV etcetera



Free to Play

F2P (Free to Play) has been dominating the mobile industry: In late 2016 Nintendo tried charging players when launching Super Mario Run but without success a strong sign how difficult the old revenue model is in mobile games nowadays. Freemium is starting to take a position in the console industry as well with strong titles like League of Legends, PUBG and Fortnite.

Examples from our Universe:

Hidden City, Big Farm, Heroes of Warland



Subscription-based

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



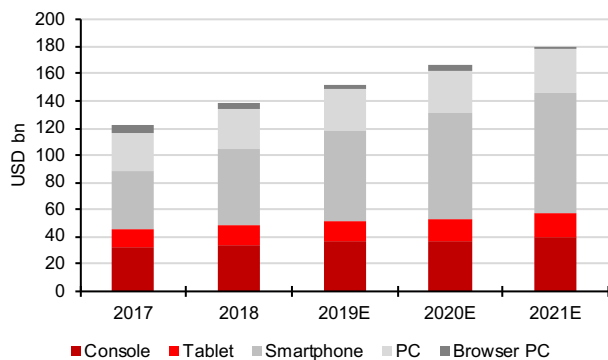
A grayscale photograph of a man and a woman using VR headsets and controllers in a room with acoustic foam. The man on the left is wearing a VR headset and holding a controller, looking intently at something off-camera. The woman on the right is also wearing a VR headset and holding a controller, looking towards the camera. The background is a wall covered in acoustic foam. The text "The market" is overlaid in the center.

The market

Size and growth

The Gaming industry is the world's largest entertainment business, trumping all others. The global Gaming market had a value of roughly USD 122bn during 2017 and is expected to grow annually by about 11% in the coming years. A key driver is mobile gaming, which is expected to rise by 19% on an annual basis.

Global Gaming Market in USD bn

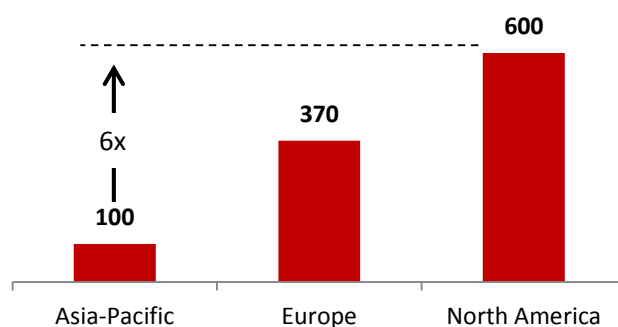


10% CAGR 2017-2021, Smartphone CAGR of 19%

Source: Newzoo

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

Revenue per capita (SEK)



Globally there are about 2.6 billion gamers, i.e., plays at least one time a month. The average gamer is 35 years old and the gender split is relatively even, with a slight predominance of males.



#Gamers

2.6Bn



Avg age

35



Gender

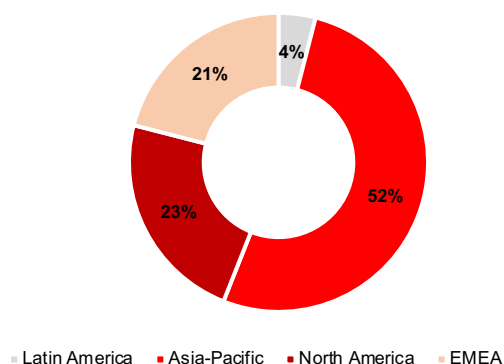
M 54%, F 46%

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

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

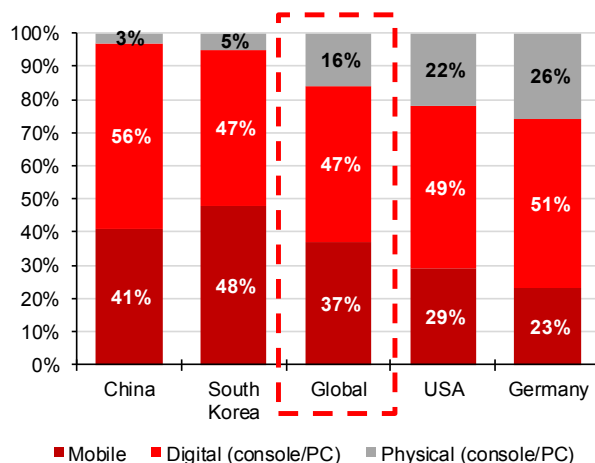
In 2018 the Asia-Pacific territories will generate USD 71.4 billion. China stands for the majority of revenues, reaching USD 37.9 billion.

Global games market per region 2018



Source: Newzoo

Market share per country, mobile digital & physical

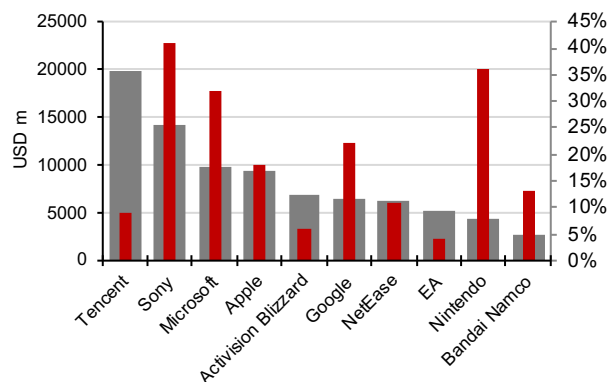


Source: Newzoo

The big players

The platform owners are the winners as a result of the digitalization of the industry.

Gaming revenues from publicly traded companies (USD m)



Source: Newzoo

In 2018, the top 25 public companies by game revenues generated a combined USD 107 billion, up 16% from 2017. This marks the first time they have exceeded the 100-billion-dollar mark. Together, these companies accounted for almost 80% of the USD 135 billion global games market. And revenues are very concentrated at the top. USD 85 billion comes from the top 10, only USD 15 billion is added if we look at the top 25.

Tencent alone earned almost USD 20 billion in revenues, accounting for almost 15% of the entire games market, and was the world's number one public company by game revenues for the sixth year running. Combined, the top 10 companies grew 19% year on year. However, the top 11-25 companies together grew just +6% year on year. Many companies, especially the world's biggest game publishers were in unable to keep pace with the market leaders.

It is the last phase of the current console generation where all three console makers have built up a major user base. All three show very impressive growth in game revenue from last year, which in this case mean over 30%.

Sony has sold over 95 million consoles, which means 56% market share in this console generation. PS4 sales will therefore likely beat the current record from PS2 as the best-selling console ever. Sony had a revenue growth of 41% which means Sony's game division generated USD 14.2 billion in 2018. Sony therefore closed the gap with Tencent as the biggest gaming company in the world, with a difference of "only" USD 5 billion in revenue (equal to EA's total game revenue). However, revenue in the diagram above only includes game sales. Sony has shipped more than 15 million PS4 consoles during the year which means Sony's revenue from its game business is close to Tencent's this year.

Microsoft has sold approximately 42 million Xbox One less than half of PS4-sales. A more aggressive price point on the console, a bigger focus on multiplayer and cross-platform games and Xbox Game Pass is probably key to the success during 2018. Microsoft's revenue from games grew 32% last year a total of USD 9.8 billion.

Compared to Sony and Microsoft, Nintendo is a relatively small player even when it comes to game revenue. Nintendo had its big turn-around in 2017 with a 100% growth. With its release of the Switch-console and four of the bestselling games during 2017. In 2018 Nintendo showed a growth of 36% resulting in game revenues of USD 4.3 billion. The Switch-console has become a good complement for gamers that already own a PC or/and a "non-portable" console.

The Chinese game freeze had an impact on Tencent's game revenues. Tencent and NetEase dominate the Chinese market with large online platforms providing games services. Last year Tencent's game revenue grew 51% this year the company "only" showed a growth of 9% in game revenues. Except Tencent's dominant position in the mobile games industry in China, Tencent completely own Riot Games (League of Legends), Supercell and holds a 40% ownership in Epic Games and 5% in Ubisoft.

In 2018 everybody talked about Fortnite. Revenues from Fortnite was USD 2.4 billion according to research firm Super Data. For example, this is close to one of the biggest game publishers Take Two total revenues in 2018.

Best-selling games 2018

The two biggest games in the Battle Royale genre had a fantastic year in 2018. PUBG (Player Unknown Battlegrounds) generated over USD 1 billion and Fortnite made USD 2.4 billion.

Premium Games 2018 (USD m) Digital & Physical			
Game	Publisher	Genre	Revenue*
Read Dead 2	Take Two	Action/Adv	1 502
CoD: Black Ops 4	Activision	Shooter	1 250
PUBG	Bluehole	Shooter	1 028
FIFA 19	EA	Sports	994
Monster Hunter	Capcom	Action RPG	677
GTA 4	Take Two	Action	668
Spider Man	Sony	Action/Adv	619
Super Smash Bros	Nintendo	Fighting	553
God of War	Sony	Action/Adv	547
Mario Kart 8	Nintendo	Racing	381

Source: VG Chartz, Super Data *Redeye estimates

Single player games on console had a great year as well. Red Dead Redemption 2, Spider-Man and God of War. All are critically acclaimed and two of them exclusive for Playstation.

Take-Two Interactive own Rockstar Games the developer and owner of Red Dead Redemption and the GTA-franchise. According to our estimates, these two games generated close to USD 2.2 billion during 2018. However, the development of "Red Dead 2" employed more than 1000 artists for seven years, which most likely made it the most expensive entertainment product of all time. We can only find guess-timates on the web on the actual budget on Red Dead 2 with an interval of USD 500-900 million including the marketing budget.

Like every year the latest instalment of Call of Duty (CoD) and FIFA was the top-grossing premium games. The big difference this year is that Activision has no single player campaign in Call of Duty instead a new Battle Royale mode was added to the multiplayer experience.

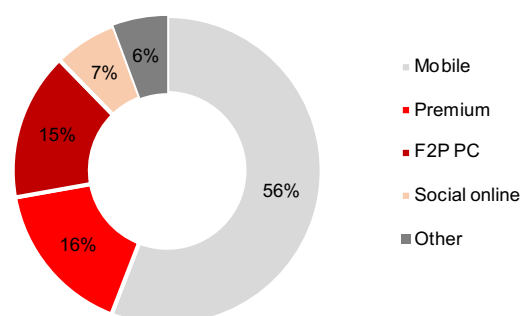
As previous years FIFA was EA's biggest revenue contributor with two of the highest grossing titles when it comes to digital sales, with the last year's version surpassing the new version in 2018. This is a perfect example of the changed revenue model in many games, where digital revenue from additional content (most often micro-transactions) can drive big revenue streams for years in popular games. EA's Apex Legends is the most talked about multiplayer success in 2019. The first quarter this game generated USD 150 million according to estimates.

Free to Play Games 2018 (USD m)			
Game	Publisher	Platform	Revenue
Fortnite	Epic Games	Multi	2 400
Dungeon Fighter	Nexon	PC	1 500
League of Legends	Tencent	PC	1 400
Pokémon GO	Niantic	Mobile	1 300
Crossfire	Tencent	Multi	1 300
Honour of Kings	Tencent	Mobile	1 300
Fate/Grand Order	Antiplex	Mobile	1 200
Candy Crush	Activision	Mobile	1 100
Monster Strike	Mixi	Mobile	1 000
Clash Royale	Tencent	Mobile	900

Source: SuperData

The highest grossing "Free to Play" game is no longer "League of Legends". But Tencent does not need to be too sad about it because they own approximately 40% of Epic Games and Fortnite. Nexon's Dungeon Fighter continued its growth journey and finished second. According to Super Data maybe quit surprisingly for many Pokémon Go is the highest grossing mobile game in 2018. After a popularity peak last year the game has managed to monetize on the most loyal players.

Digital Games sales distribution (2018)



Source: Newzoo

Free to Play games generate 71% of total digital games sales globally according to Newzoo. Most of the total revenue from Asia comes from Free to Play games. A market for physical premium games in Asia is close to non-existent while it is still major in the west. This of course have an impact when we look at digital sales separately which shows that revenue from premium games is about the same size as "Free to Play".

Valuations and Investment opportunities

On an overall level, the multiple valuations most often range from; 1-6x EV/S and 12-28 EV/EBIT. Our company sample is based on 39 companies with data gathered from Bloomberg. There are a handful more public gaming companies, but they have been excluded due to lack of consensus estimates.

Segment valuations

The valuation multiples vary between different gaming segments where console focus companies receive the highest valuations based on annual multiples.

Mobile

The companies in our Mobile list have an almost exclusive focus on creating mobile games. On an aggregated level the mobile companies have the lowest valuations. The group is valued, based on 2019 estimates, at 3.1x sales and 15x EBIT. The aggregated group is expected to grow annually by 12% in the coming three years with an average EBIT margin of 23%. Compared to last year the aggregated valuation level has increased from 12x EBIT and 2.5x sales. The total aggregated EV value for the Group rose 12%, the main driver is higher valuation for the largest players like NCSOFT, Zynga, GLU & Stillfront.

Valuation Mobile (mUSD)					
Company	EV	EV/S 19E	EV/EBIT 19E	S. CAGR 18-21E	EBIT % 18-21E
NCSOFT	8 160	5,3x	15x	15%	38%
netmarble	7 016	3,3x	20x	10%	17%
Zynga	5 382	3,7x	19x	26%	20%
GUNGHO	2 338	2,2x	8x	1%	23%
GLU Mobile	1 226	2,7x	23x	20%	15%
MTG	922	1,9x		16%	2%
Stillfront	627	3,6x	13x	12%	28%
Changyou	544	1,2x	4x	-2%	27%
Rovio	486	1,4x	10x	6%	16%
Com2us	434	1,0x	3x	5%	32%
Playway	302	14,4x	23x	49%	65%
11 Bit Stu.	219	11,0x	26x	103%	52%
Atari	90	3,5x	26x	14%	14%
G5 Ent.	70	0,5x	5x	-2%	12%
Next Games	25	0,5x		22%	-5%
MAG Int.	11	0,6x		0%	2%
Nitro Games	2	0,9x		22%	-121%
Agg.	27 854	3,1x	15x	12%	23%

Source: Bloomberg & Redeye Research

Console & PC

Console and PC focused gaming companies receives the highest valuation based on annual multiples. One possible reason for this is that these type of companies most often has a more volatile sales swings then, for example, mobile gaming firms. Not all but many only have a few IPs with a three year plus development cycle. The group is valued, based on 2019 estimates, at 4.5x sales and 21x EBIT, both absolute valuations and the multiples have dropped compared to last year. The aggregated group is expected to grow annually by 23% in the coming three years with an average EBIT margin of 24%. Many companies in this segment group are active acquires, so this affects the growth rates to some degree.

Valuation Console & PC (mUSD)					
Company	EV	EV/S 19E	EV/EBIT 19E	S. CAGR 18-21E	EBIT % 18-21E
Take Two Int.	9 746	3,6x	17x	30%	19%
CD Projekt Red	5 016	38,4x	87x	73%	59%
Perfect World	4 664	3,4x	13x	11%	26%
THQ Nordic	2 336	3,9x	31x	11%	15%
Paradox Int.	1 477	9,9x	23x	19%	43%
Frontier Dev.	492	4,5x	21x	34%	20%
Focus Home Int.	125	1,0x	8x	5%	12%
Remedy Ent.	85	2,2x	8x	21%	24%
CI Games	45	3,6x	25x	19%	21%
Starbreeze	30	0,7x		46%	5%
Agg.	24 015	4,5x	21x	23%	24%

Source: Bloomberg & Redeye Research

Cross-platform

The companies in the cross-platform group are most often active in all segments, own proprietary platforms or even console systems like Nintendo. Most companies in this group have more stable revenues and profitability then mobile and console/pc. The aggregated group is expected to grow annually by 17% in the coming three years with an average EBIT margin of 25%. Compared to last year there has been a significant drop in absolute valuation for this group of companies, primarily due to lower expected growth in the coming years. As a total the aggregated value has declined by almost USD 100bn, or 14%.

Valuation Cross-platform (mUSD)					
Company	EV	EV/S 19E	EV/EBIT 19E	S. CAGR 18-21E	EBIT % 18-21E
Tencent	457 262	7,8x	29x	26%	28%
Nintendo	34 731	2,9x	11x	7%	26%
Activision Bliz.	31 228	4,9x	15x	0%	34%
NetEase	28 195	2,3x	21x	18%	11%
Electronic Arts	22 638	4,4x	14x	4%	31%
Ubisoft	10 531	4,5x	22x	11%	22%
Bandai Namco	8 988	1,3x	11x	7%	12%
NEXON	8 542	3,5x	9x	6%	39%
KONAMI	5 160	2,0x	10x	8%	20%
Square Enix	2 708	1,1x	8x	5%	13%
CAPCOM	2 241	2,6x	12x	4%	22%
Digital Bros	112	1,2x		23%	6%
Agg.	612 339	5,5x	23x	17%	25%

Source: Bloomberg & Redeye Research

Cloud gaming

“Cloud gaming” has been a tech buzzword for years. The idea is that we’ll no longer need gaming PCs or consoles with powerful graphics hardware. All the heavy lifting will be done “in the cloud.”, the remote server does all the heavy work, while your computer (or another device) just receives streaming video (and audio) and sends input commands. Essentially, cloud gaming is like a streaming video service, but interactive. This year however most of the big tech names will join the battle in cloud gaming. Google made it public first with “Stadia”, but Microsoft and Amazon have similar solutions ready to launch soon.

Google's strategy

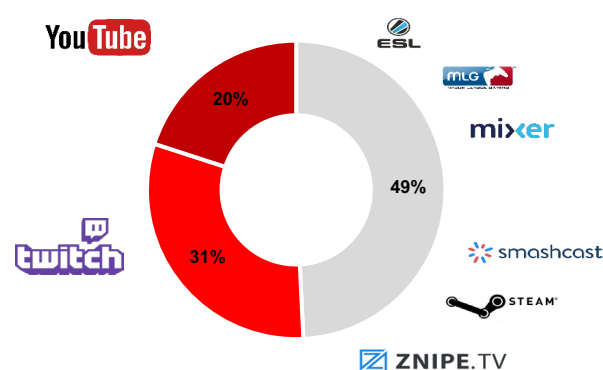
Isn't it enough to dominate web search, ads, and browsers, smartphone operating systems, and maps? What part of our lives does Google not want to know about? A journalist at Verge wrote that we might be looking at it from the wrong perspective: what if Stadia isn't a case of Google aggressively entering a new business sphere, but rather a defensive one to protect its existing kingdom?

YouTube has a practical monopoly on user-generated video online. It's the birthplace of creative communities, the workplace for many, and the landing spot for a huge array of gaming-related videos. Amazon's Twitch rules the live-streaming arena, but YouTube is ultimately the place where the vast majority of the gaming-related video ends up.

Vlad Savov at Verge think that Google's Stadia project is motivated, to a greater or lesser degree, by the desire to maintain its predominance as the home of gaming video. As of right now, Google gets more than 200 million logged-in daily active users watching gaming content. That's 200 million pairs of eyes to present ads to every day. In 2018, YouTube accumulated more than 50 billion watched hours of gaming content. "Gaming has always been the backbone of YouTube since the platform was first founded," notes YouTube's gaming director Ryan Wyatt.

Taking a long-term view on things, a significant proportion of gaming will head to the cloud, whether through Microsoft, Sony, Amazon, Nvidia, or Valve's efforts. And when that transition happens, it's logical to expect some disruption to the way people share their in-game clips and the sorts of clips they choose to share. Google's competitors are well positioned to capitalize on this, as Microsoft and Sony have built sharing features into their consoles and it's easy to imagine they'll cut YouTube out of the equation when they each have a full cloud gaming platform*.

Gaming video content market 2018



Source: Newzoo

Amazon bought Twitch only some years ago, but the platform has already gained a significant market share.

The unique buttons Google has put on the top: one is for Google Assistant and the other is for screen capture. Those are your Google priorities. The capture button is there to make sharing to YouTube as effortless and frictionless as possible, while the Assistant's inclusion is there to help gamers stuck on a level find guides or tips on YouTube without having to leave their gaming session.



Google Stadia controller

Many of the answers to "why is Google doing this?" boil down to a version of "because Google is one of the few companies that can." Google already has the cloud infrastructure that few have except Microsoft and Amazon. CEO Sundar Pichai summarized it neatly during the Stadia announcement: "Our custom server hardware and data centers can bring more computing to more people on planet Earth than anyone else." Data centers, server farms, and high-bandwidth fiber optic connections plugging them into the internet are what Google's entire empire is built upon.

And then Google has the experience of running multiple billion-user cloud services reliably, plus the ability to spam them all with news of its planned gaming revolution.

* <https://www.theverge.com/2019/3/20/18274184/google-stadia-youtube-streaming-future-gaming-cloud>

Google has the tech but...

Google revealed that its servers will be powered by a custom AMD GPU that will deliver 10.7 teraflops of power, which is more than the 4.2 teraflops of the PS4 Pro and the 6 teraflops of power on the Xbox One X (currently the world's most powerful console).

This graphical power is impressive but largely irrelevant. The end result of actual gameplay will rely entirely on your internet connection to Stadia.

According to first impressions, games look good most of the time on Stadia, about on par with a game running on a PC or console, but there are instances where the quality of the gameplay falters. The issue that crept up is what's known as input lag, where there is a perceptible delay between the time the gamer presses a button and the instant the game registers that action on the screen.

Input lag is a common problem with game streaming services where the game is not running on a local hard drive but miles away on a supercomputer and then streamed back to the gamer's screen. Streaming games require more advanced processing technology than streaming content from Netflix, for example. Even when a gamer has a reliable high-speed internet connection, input lag can be a problem.



Google server room - The next console...

At the Stadia announcement event, Google assured hands-on reviewers that input lag would not be an issue when the service goes live. Google has spent billions of dollars over the years on data centers; not to mention, well, it's Google -- the company knows a thing or two about the internet and the cloud.

The millions of players who play battle royale games, such as Fortnite and Apex Legends, as well as team-based shooters like Overwatch, are also going to be a tough sell for Stadia. These are some of the most played games in the industry, and they also require constant, smooth gameplay for the best user experience. The reputation of game streaming services for delivering inconsistent performance will likely keep Stadia from reaching mass appeal and becoming a game changer for the industry when it launches later this year.

... not the content, yet

Sony already streams PlayStation games to its consoles and PCs via its PlayStation Now service. Sony acquired game streaming service Gaikai to turn it into PlayStation Now, and it even acquired rival OnLive only to shut it down. Microsoft is also planning its own xCloud game streaming service, which it demonstrated recently, with public trials set to start later this year.

Sony and Microsoft's approaches aren't cloud-native like Google's, and they don't require developers to port their games or rebuild them for their cloud streaming service. Both companies are using console hardware in server blades. That's a benefit for now as both Sony and Microsoft can offer big game libraries without needing developers to change anything. Google's ambitious effort will require more heavy lifting from developers, but Google may have the longer-term advantage of being able to switch out its hardware with ease in the future and implement changes that don't affect legacy console hardware.

An interesting note is that game publishers will also join the battle including EA and Tencent.

Microsoft will be dominant

Microsoft has the exact same service as Google Stadia in its pipeline. But there is a big difference, Microsoft has content. It's been 17 years since they entered the gaming space with Xbox. And they have the infrastructure for cloud gaming already in place. While Sony and Nintendo currently have the best exclusive content, Microsoft is building a new portfolio of exclusives in the subscription-based Xbox Game Pass. With cloud gaming support this service could be the real "Netflix for games". As we told you last year Microsoft will continue to buy game studios and publishers to offer the best possible platform for future gaming experiences. In this sense we believe THQ Nordic, Remedy etcetera will always be a possible acquisition target.



According to sources at VideoGameChronicle Microsoft Game Pass has about 10 million users.

Reports from Thurrott suggest we may see a streaming-only console launch alongside the mainline Xbox Two announced on E3 in June 2019.

It would likely be pitched as a low-cost alternative, given the reduced hardware requirements when streaming games directly from the cloud, probably higher in price than a standard streaming box but cheaper than other Xbox consoles.

However, Project xCloud won't replace traditional consoles. According to a post on the Xbox Wire, Microsoft wants Project xCloud to provide choice to players in where they game. If the TV is occupied, they want you to be able to game on your computer. If that's occupied, you might be able to play games on your phone, or even your Nintendo Switch... But regardless of where you play, Microsoft says, there will always be a place for consoles:

"We're developing Project xCloud not as a replacement for game consoles, but as a way to provide the same choice and versatility that lovers of music and video enjoy today. We're just adding more ways to play Xbox games*.

Sony already is dominant

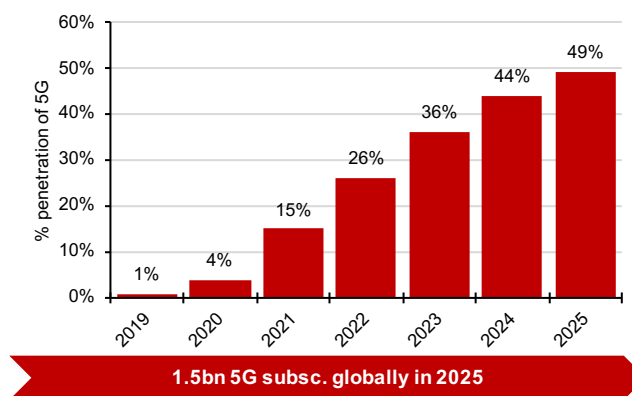
With close to 100 million PS4 consoles sold Sony is the second biggest gaming company in the world with about USD 16 billion in revenue last year. Sony already has a "Netflix for games" service on the market called "Playstation Now". Sony has all what it takes except a technical "cloud gaming" infrastructure that can be compared to Microsoft, Amazon and Google. Will Sony build something similar with for example Amazon cloud infrastructure? Or do both companies think they have the power to do it on their own? Primary Sony will try to ride the momentum with PS4 and the current market domination. All bets on PS5...

Sony, Microsoft, Amazon, and Google will be the key players in any cloud gaming war. Sony has the games and PlayStation Now, Microsoft can leverage its Azure data centers and Xbox Game Pass for xCloud, and Amazon can lean on its cloud dominance, Prime, and its massively popular Twitch service to entice gamers. Google has some fierce competition, but it looks like this cloud gaming war is just getting started.

The infrastructure is in development

Cloud Gaming is entering its 1.0 version with Stadia and other competing technologies. Just like the smartphone needed extensive 3G networks to have a breakthrough the key for true commercialization of Cloud Gaming is the speed of the networks. Fiber is being widespread, but some key markets like the UK and some parts of the USA are still far behind the countries with the highest fiber penetrations. We believe the coming adoption of 5G could play a vital role in the mass adoption of Cloud Gaming. At peak speed, 5G is roughly 20 times faster than 4G.

Forecast 5G share of mobile connections in the USA



Source: GSM, Ericsson mobility report, statista

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

* <https://www.techradar.com/news/gaming/consoles/next-xbox-release-date-news-and-rumors-1266462>

Our final thoughts

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

The next generation of consoles will not exactly be a next generation. We will be going to see the boxes act a lot more like smartphones and PCs, with multiple iterations in play; all running slightly improved versions of the same thing. Sony will have a user base of more than 100 million soon, betting on an entirely new generation where games will not work on older consoles seems risky in a business perspective.

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

Physical game sales will continue to slowly lose market share in the next generation. But in the west physical games sales is still significant. For example, 51% of EA game sales (full game) on console still were physical (last quarter). Many gamers want to own their consoles and build their own game libraries digital or physical.

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

Platform wars

Steam has for a long time been the unrivaled player when it comes to PC digital distribution, and they still hold most of the market. However, during the past years and especially 2018 contenders have emerged. Players like Epic Games Store (EGS), Discord and GOG, are eating away of Steams massive pie. EGS's owner EPIC utilizes their extensive financial capabilities to sing exclusive content deals to the EGS. Some notable games that have singed/released are; The Division 2, Metro Exodus, Control, The Outer Worlds, Satisfactory and more.

We believe that putting pressure on Steam's position and in the end, their pricing, as EGS has a 12% cut and not 30%, is good for the industry. We think that as more of the profits will stay at the publishers and developers, and those cash flows can be re-invested into more projects.

A person wearing an ASUS ROG headset is shown in profile, looking at a computer monitor. The monitor displays a first-person shooter game with a heads-up display (HUD) showing a score of 10-7 and a kill count of 11. The background is a dimly lit esports arena with various banners and lights.

eSport – A global phenomena

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

Definition

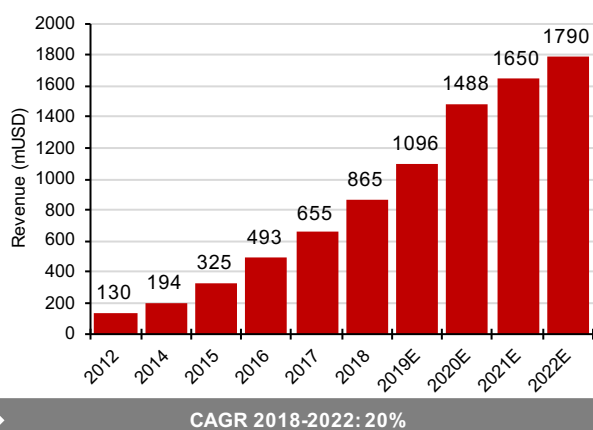
eSports is defined as competitive and professional gameplay of computer and video games. Not every game is an eSport. Most eSports are multiplayer games and played in teams. The team dynamic makes the games more enjoyable to watch for the audience. Every game franchise that is classified as an eSport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

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

Growth rate and size

eSports is the fastest growing sports industry in the world. During 2018 the estimated global revenue of the sector amounted to USD 865m and is expected to grow more than 20% annually over the coming years.

eSport global revenue (mUSD)

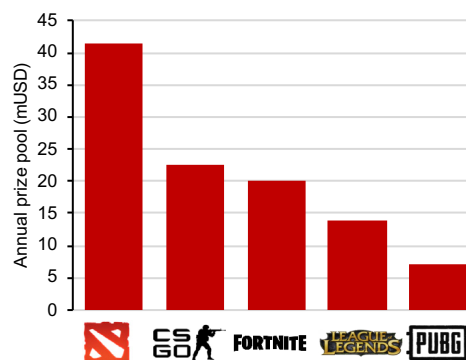


Source: statista

Top games

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

Highest prize pools per eSport titles 2018

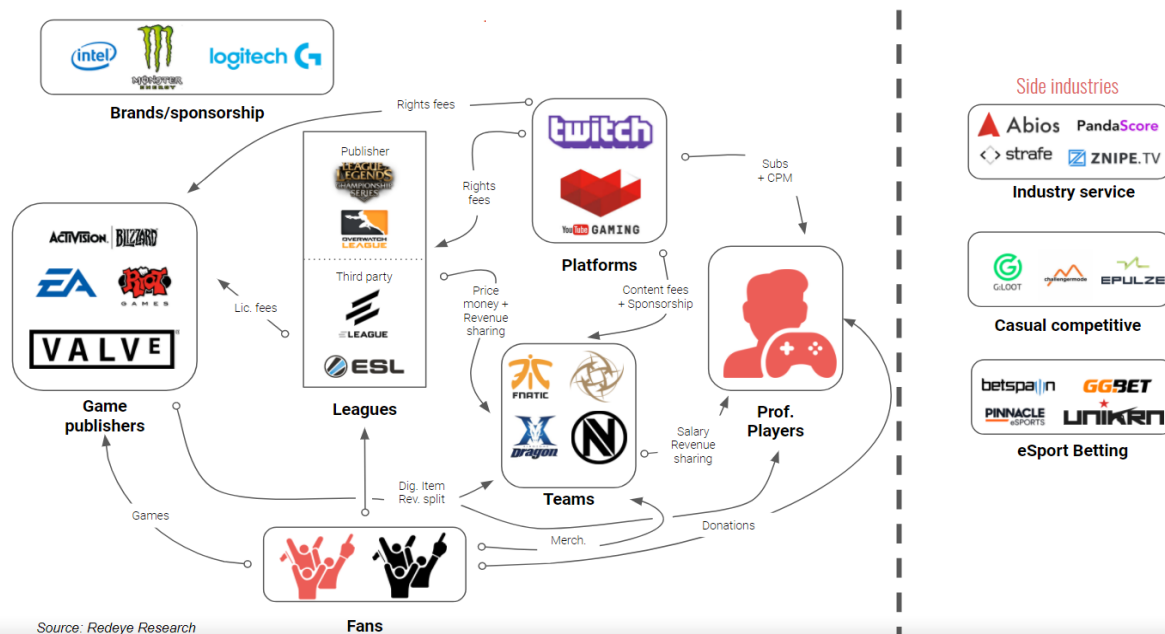


Source: esportearnings

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

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

The ecosystem of eSports



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

Game publishers

The game publishers create and distribute the games.

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

Publisher's main income comes

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

Leagues/Tournaments

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

Leagues main income comes from:

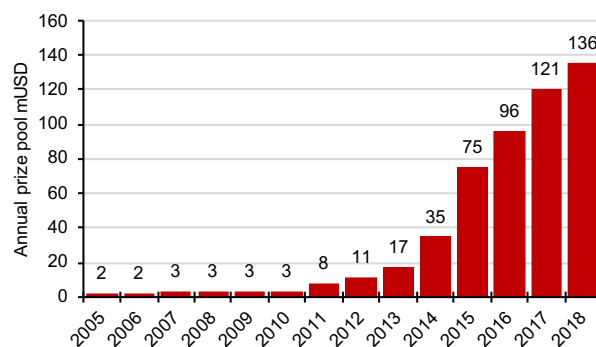
- Sponsors for the events
- Rights fees from platforms
- Ticket sales

Teams and players

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

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

eSport prize pools 2005-2018 (mUSD)

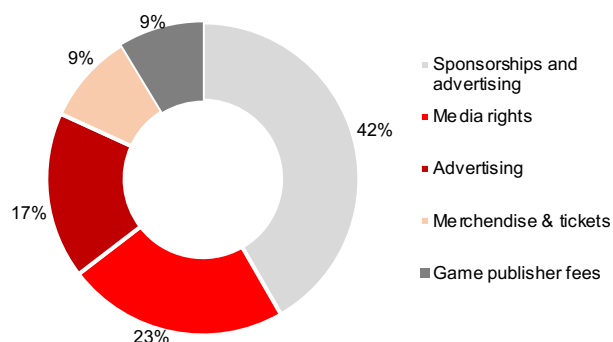


CAGR 2005-2018 38%

Source: Newzoo, statista

The global prize pool amounted to 136 mUSD during 2018. The prize pools have grown by an annual rate of 38% since 2005.

eSport market revenue by segment (2019)



Source: statista

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

Teams and players main income comes:

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

Brands and advertisers

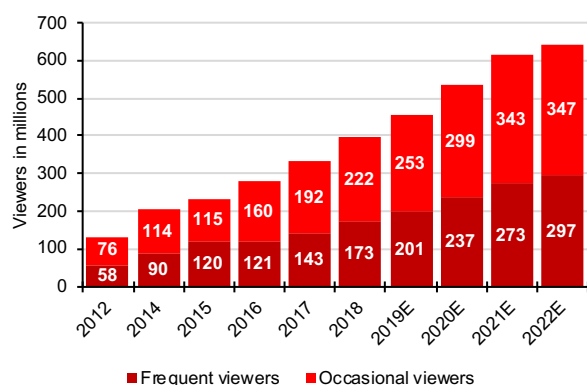
The most significant revenue contributors within the ecosystem are brands and advertisers with sponsorships.

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

Fans

The increasing fan base of eSport is the main driver of the revenue within the industry and is the reason why many brands have taken an interest in eSports. The amount of eSport viewers in 2018 amounted to 395 million and is expected to continue to grow in the coming years.

eSport viewers in millions and type



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

Source: statista

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

Platforms

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

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

Platforms main income comes:

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

Notable side industries

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

Industry Services

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

Casual Competitive

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

eSport Betting

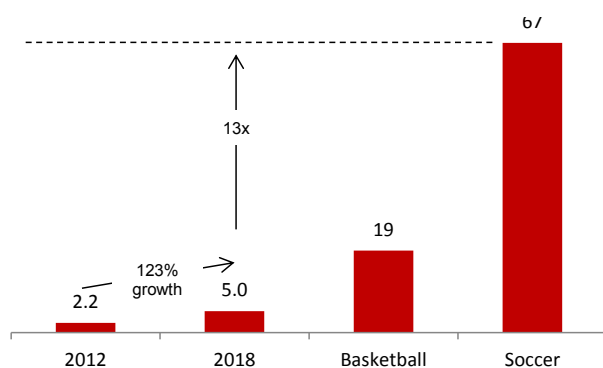
Within any sport, there is almost always a significant betting market. eSports is no different. Most eSport games make a perfect opportunity for live betting and different type of combination bets. Historically a type of “black market” for Skin betting has emerged. However, this is shifting to a regulated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

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

The opportunities of tomorrow

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

Revenue per Fan (USD)



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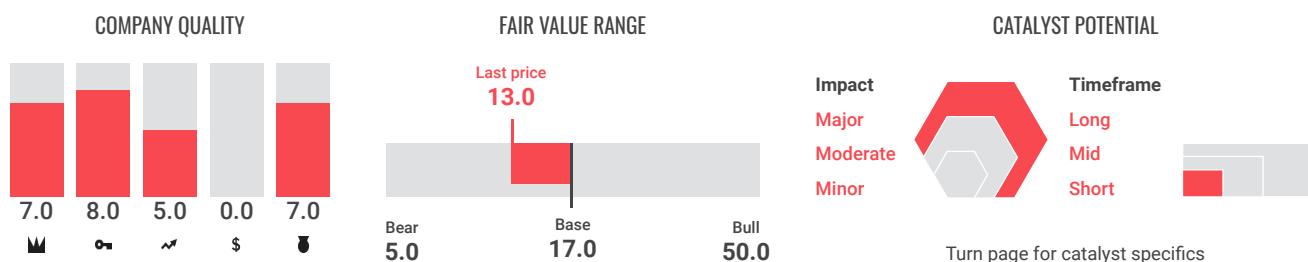
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Investment Summary

Client companies

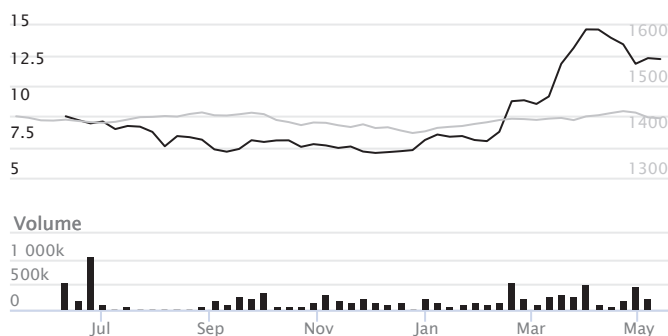
Redeye Rating

Leadership
 Ownership
 Profit outlook
 Profitability
 Capital strength



Snapshot

Flexion Mobile
OMXS30



Marketplace First North Stockholm

CEO Jens Lauritzson

Chairman Carl Palmstierna

Share information

Share price (SEK) 13.0

Number of shares (M) 41.1

Market cap (MSEK) 531

Net debt (MSEK) -3

Analyst



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Conflict of interests

Tomas Otterbeck owns shares in Flexion Mobile: **Yes**

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

Financials

MGP

	2017	2018E	Redeye Estimates		
			2019E	2020E	2021E
Revenue, MSEK	2	5	11	19	25
Growth	49.8%	>100%	>100%	73.9%	34.5%
EBITDA	-1	-1	-2	-1	0
EBITDA margin	Neg	Neg	Neg	Neg	1.5%
EBIT	-1	-1	-2	-2	-1
EBIT margin	Neg	Neg	Neg	Neg	Neg
Pre-tax earnings	-1	-1	-2	-2	-1
Net earnings	-1	-1	-2	-1	-1
Net margin	Neg	Neg	Neg	Neg	Neg
Dividend/Share	0.00	0.00	0.00	0.00	0.00
EPS adj.	-0.02	-0.02	-0.05	-0.03	-0.02
P/E adj.	0.0	-51.8	-20.5	-31.1	-65.8
EV/S	-3.6	7.4	3.7	2.2	1.6
EV/EBITDA	9.0	-45.1	-17.6	-45.4	111.2

Last updated: 2019-05-06

Owner	Equity	Votes
Mobile Sensations Ltd	28.2%	28.2%
Carl Palmstierna	9.1%	9.1%
Sjätte AP-fonden	8.7%	8.7%
Zallaz SA	8.1%	8.1%
Claes Kalborg	0.3%	0.3%
Andreas Mac Mahon	0.2%	0.2%
Niklas Koresaar	0.1%	0.1%

Company description

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

Investment case

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

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

Valuation – Going forward, revenue growth will be most important for the stock's valuation. Our base case anticipates explosive growth over the next three years with a CAGR of almost 80%. This reflects Flexion's first-mover opportunity and its growth from a low base.

Challenges

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

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

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

Catalyst types

Channels

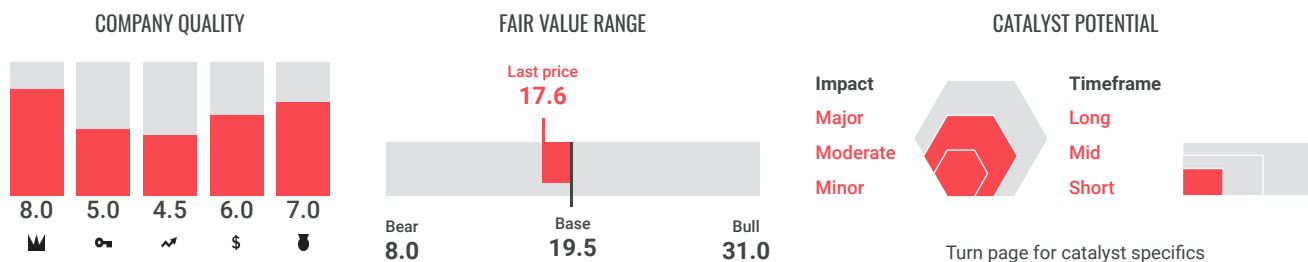
Signing more channels (mobile app stores).

Games

Signing more games.

Redeye Rating

Leadership Ownership Profit outlook Profitability Capital strength



Snapshot



Marketplace	Oslo Børs
CEO	Rui Casais
Chairman	Ole Gladhaug
Share information	
Share price (NOK)	17.6
Number of shares (M)	77.1
Market cap (MNOK)	1,317
Net debt (MNOK)	-13

Analyst



Tomas Otterbeck
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Conflict of interests

Tomas Otterbeck owns shares in Funcom: **No**

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

Financials

MUSD

	2017	2018E	Redeye Estimates		
			2019E	2020E	2021E
Revenue, MNOK	23	34	30	45	61
Growth	>100%	46.0%	-10.7%	48.4%	36.2%
EBITDA	10	18	13	27	41
EBITDA margin	42.9%	52.3%	42.4%	61.2%	66.7%
EBIT	7	10	6	11	16
EBIT margin	28.7%	30.0%	18.6%	24.0%	27.0%
Pre-tax earnings	7	8	6	11	16
Net earnings	5	6	4	9	13
Net margin	21.4%	18.5%	14.9%	19.2%	21.6%
Dividend/Share	0.00	0.00	0.00	0.00	0.00
EPS adj.	0.07	0.08	0.06	0.11	0.17
P/E adj.	0.0	23.0	32.2	16.8	11.0
EV/S	-0.2	3.4	4.4	3.0	2.1
EV/EBITDA	-0.4	6.5	10.3	4.9	3.1

Last updated: 2019-03-06

Owner	Equity	Votes
Kristian Gerhard Jebsen Group	29.0%	29.0%
Swedbank Robur Fonder	9.6%	9.6%
Tranicos LLC	5.9%	5.9%
Avanza Pension	5.0%	5.0%
Nordnet Pensionsförsäkring	5.0%	5.0%
Atle Pedersen	1.1%	1.1%
Gjestøy AS	1.1%	1.1%
Nordnet Livsforsikring AS	1.0%	1.0%
Egil Pettersen	0.9%	0.9%
Dimensional Fund Advisors	0.8%	0.8%

Company description

Founded in 1993, Funcom developed console games until 1999, when the company released its first PC game. Funcom became one of the pioneers of massively multiplayer online role-playing games (MMORPG) when the company achieved success with *Anarchy Online* when it was released in 2001. In 2008, Funcom released its biggest game production ever, a game that had the potential to be a serious challenger to the biggest MMORPG game of all time - *World of Warcraft*. The *Age of Conan* game never achieved the success that many investors had hoped for. Two reasons for this was technical problems at the start and other game-related and still today no MMORPG has beaten *World of Warcraft*. *Age of Conan* was in that sense a big accomplishment in many ways, it was profitable and had over 4 million players. glitches. However the game was still the second biggest PC-game that year and the number one online game worldwide that year.

Rui Casais, a former programmer who had risen to chief technical officer at Funcom was entrusted with shouldering the job of CEO and getting the company back on track. Funcom finally managed to find a backer and *Conan Exiles*, an open world survival was created on a shoestring in less than twelve months. Needless to say, it is a huge feat to create a relatively playable roleplaying game in this genre in so little time. The game was a profitable project and sold 480,000 units in 28 days with a development budget of less than USD 5 million. And so, the turnaround was achieved and Rui Casais has to be considered a hero. Since that success, Funcom has continued to run the business cost-effectively while improving its cash flows and profitability by enhancing the gameplay of *Conan Exiles* while releasing additional content according to the "Games as a Service" business model.

Investment case

- CEO key to continued success – Rui Casais brings two key strengths to his role. Besides a consciousness of costs that is on a par with Lars Wingefors (THQ Nordic), he also exhibits the same understanding of games as Fredrik Wester (Paradox Interactive).
- Diversification under way - After Funcom released its first game in its new publishing arm in Q4 18, two new publishing titles are scheduled for release in 2019. Over the next two years the company is also likely to release three new proprietary games.
- Focus on cost and risk - Despite Funcom's big ambitions, the CEO focuses on keeping costs small. Almost all aspects of game production are handled internally, within very small and streamlined teams. Developing games that can show profitability at an early stage is a top priority.
- Looking past 2019 - Although we expect no growth and weaker operating profit in 2019, this is already factored into the share price, in our view. Smart investors should be look ahead to 2020 - a year of potentially explosive growth.

Funcom has now entered a new growth phase, having completed its turnaround in 2017. We expect the company's rebound to bring both decent earnings and lower risk – particularly in 2020, when the take-off could be explosive. This reflects the likely launch of at least five games over the next two years, with the online role-player due next year the biggest potential value driver among them.

Powerful leverage - With an EBIT margin of around 35 % in the last quarter Funcom has already proved that it can achieve significant profitability. Its strongest earnings come from games developed in-house: the online open world survival game due in 2021 could lift the company's performance to the next level.

Attractive valuation - Funcom trades at attractive multiples, especially its EV / EBIT of 7.5 on our 2020 forecast. Its strategy and business model position Funcom for high growth in the coming years without sacrificing its good cost control.

Funcom also owns 50% of *Heroic Signatures*, which has the gaming rights to *Conan The Barbarian* and other similar brands. While we only factor this into our valuation through future revenues from the company's expected selfpublished games based on these characters, this IPs has the potential to generate additional cash flow for Funcom. For example, industry rumours.

Catalyst types

Conan Unconquered

The developer of *Conan Unconquered* is Petroglyph Games. The studio was founded in 2003 and consists of several veterans of Westwood Studios (most known for *Command and Conquer*). After the new gameplay and more information about the game we are more confident about the commercial potential. The game will be released May 30 2019.

Moons of Madness

The game developed by Rock Pocket Games is a title based on H.P. Lovecraft's horror stories. The game takes place on planet Mars with influences from successful games such as *Dead Space*, *Prey* and *Silent Hill*. It will be released around Halloween 2019.

Active players and sales

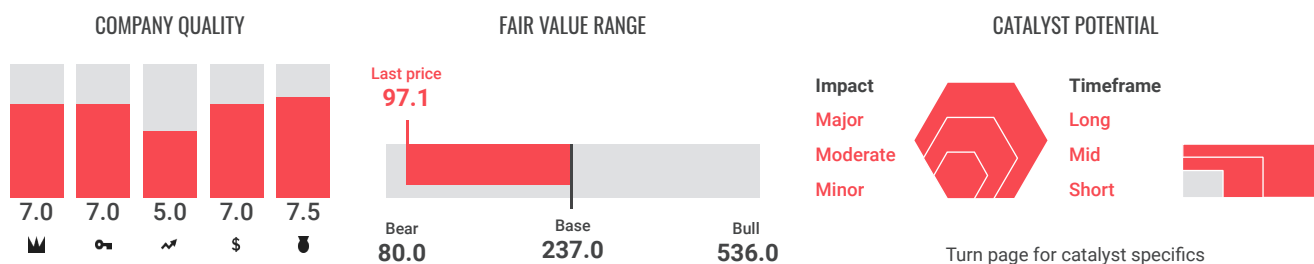
Since the majority of the company's 2019 revenues are likely to come from 'Conan Exiles', data on this game will be notable for the stock. In particular, the number of active players (CCUs), free weekends and the release of new content (DLC) will be important for mapping Funcom's probable cash flow.

Mutant Year Zero for Nintendo Switch

The game will be released May 25 2019 on Nintendo Switch, which has become the primary platform for many indie games and strategy games. The reason for this is that the platform is portable and that games of this type are not particularly technically demanding. Perhaps the most important reason is that this type of game sells very well on Nintendo Switch.

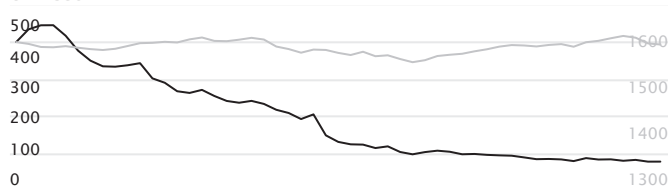
Redeye Rating

Leadership Ownership Profit outlook Profitability Capital strength



Snapshot

G5 Entertainment
OMXS30



Volume



Marketplace: NASDAQ Stockholm

CEO: Vladislav Suglobov

Chairman: Petter Nylander

Share information

Share price (SEK): 97.1

Number of shares (M): 9.0

Market cap (MSEK): 871

Net debt (MSEK): -180

Analyst



Tomas Otterbeck

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Conflict of interests

Tomas Otterbeck owns shares in G5 Entertainment: **Yes**

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

Financials

	2017	2018	Redeye Estimates		
			2019E	2020E	2021E
Revenue, MSEK	1,135	1,450	1,337	1,403	1,614
Growth	>100%	27.7%	-7.8%	5.0%	15.0%
EBITDA	157	244	239	234	325
EBITDA margin	13.9%	16.9%	17.9%	16.7%	20.1%
EBIT	102	143	125	135	230
EBIT margin	9.0%	9.9%	9.4%	9.6%	14.3%
Pre-tax earnings	102	143	125	135	230
Net earnings	86	122	106	114	196
Net margin	7.6%	8.4%	7.9%	8.2%	12.1%
Dividend/Share	2.50	2.50	2.50	3.50	3.50
EPS adj.	9.80	13.82	12.05	13.00	22.24
P/E adj.	30.6	9.4	9.3	8.6	5.0
EV/S	2.3	0.7	0.6	0.5	0.3
EV/EBITDA	16.4	4.2	3.4	3.0	1.7

Last updated: 2019-02-15

Owner	Equity	Votes
Swedbank Robur Fonder	9.5%	9.5%
Wide Development Ltd	6.8%	6.8%
Purple Wolf Ltd	5.7%	5.7%
Proxima Ltd	5.3%	5.3%
Avanza Pension	4.7%	4.7%
Tommy Svensk	4.5%	4.5%
The Bank of New York Mellon SA/NV	4.3%	4.3%
Aktia Asset Management	3.2%	3.2%
Nordnet Pensionsförsäkring	2.2%	2.2%
Rite Ventures	1.5%	1.5%

Company description

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

Investment case

- We expect G5 to maintain revenue growth of 11 percent CAGR in 2019-2022. The mobile games industry as a whole is expected to grow with a CAGR of 10-20 percent during the same period according to Newzoo.
- G5 earns a majority of total revenues in Hidden Object games. G5 has found its niche within the target group of women aged 35 years and older. According to research, this target group is loyal, affluent and women usually make more in-app purchases than men.
- Around 50% of total revenue comes from North America and nearly 30% comes from Japan. Japan is a country where the Average Revenue per User (ARPU) is the highest in the world. We believe a higher market share in Asia is one of G5's biggest growth driver the coming years.

EBIT margin increases

The company has began to focus on self-developed games. In the last months three G5 has acquired three games in its portfolio that was earlier licensed games. With 8 million monthly active users, the company has a golden opportunity to cross-promote similar proprietary games. One of the benefits with fully owned games is that the company does not have to pay any royalties to the developer, which means that the profitability will increase when the proportion of revenue from fully owned gaming increases. Today the only licensed game in the portfolio is Hidden City, its highest grossing game.

Increased market share

In the past the majority of the revenue from G5's games has come from the iPad (Thinkgaming). In order to grow in the segment of the mobile phone, the company has increased their efforts in the past years and optimized their content better for a smaller screen. The company's efforts have paid off when the mobile phones share of revenue has increased. Part of the success for "Hidden City" can, therefore, be explained by the company's adjustments of content to be better suited for the mobile phone. As self-developed games to a certain degree will take over the coming years, they have

also been enhanced for playing on the mobile phone. For this reason, we believe that the share of revenues from the mobile phone will increase the coming years, which likely will be a major part of the company's overall growth.

Investment risks

Due to the low diversification in the games portfolio, the potential impact of the highly successful Hidden City's decline would affect total revenues dramatically. Mobile games have limited life cycles. It is therefore important to a gaming developer/publisher to deliver new attractive content when old titles reach maturity. The high growth in the industry could also attract competitors to make similar games to G5's.

Catalyst types

Big in Japan

Further increased market share in Asia, especially Japan, China and Korea.

Low diversification in games portfolio

Due to the low diversification in the games portfolio, the impact of the highly successful Hidden City's decline will affect total revenues dramatically.

Ebit-margin gradually goes up

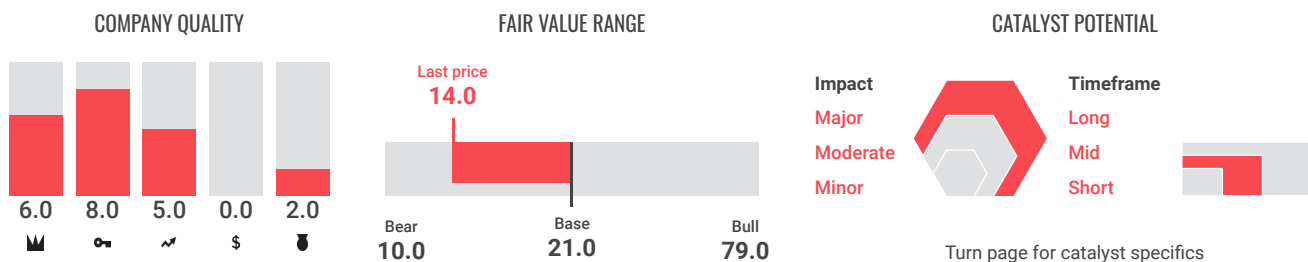
EBIT-expansion driven by investments in in-house developed games with lower royalty cost.

Increased market shares from smartphones

Revenues from the mobile phone segment is expected to increase, which is a potential growth driver.

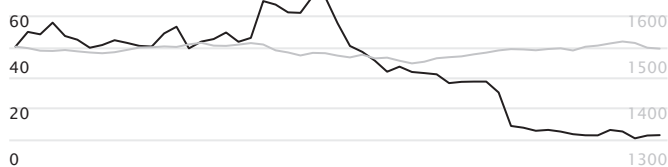
Redeye Rating

Leadership
 Ownership
 Profit outlook
 Profitability
 Capital strength



Snapshot

Nitro Games
OMXS30



Volume



Marketplace First North Stockholm

CEO Jussi Tähtinen

Chairman Antti Villanen

Share information

Share price (SEK) 14.0

Number of shares (M) 3.6

Market cap (MSEK) 50

Net debt (MSEK) 1

Analyst



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Conflict of interests

Tomas Otterbeck owns shares in Nitro Games: **Yes**

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

Financials

MEUR

			Redeye Estimates		
			2019E	2020E	2021E
Revenue, MSEK	2017	2018	2	3	4
Growth	>100%	27.5%	-30.0%	73.6%	48.3%
EBITDA	-2	-5	-5	-3	-2
EBITDA margin	Neg	Neg	Neg	Neg	Neg
EBIT	-3	-6	-5	-3	-2
EBIT margin	Neg	Neg	Neg	Neg	Neg
Pre-tax earnings	-3	-6	-5	-3	-2
Net earnings	-3	-6	-5	-3	-2
Net margin	Neg	Neg	Neg	Neg	Neg
Dividend/Share	0.00	0.00	0.00	0.00	0.00
EPS adj.	-1.41	-1.64	-1.26	-0.82	-0.60
P/E adj.	-3.6	-2.7	-1.1	-1.8	-2.4
EV/S	5.6	6.2	4.1	3.3	2.8
EV/EBITDA	-5.2	-2.6	-1.4	-3.0	-5.4

Last updated: 2019-04-29

Owner	Equity	Votes
Jacob Ehrnrooth	16.7%	16.7%
Savox Investments S.A.	12.0%	12.0%
Swedbank Robur Fonder	9.6%	9.6%
Feat Invest AB	5.4%	5.4%
Ludvig Strigéus	4.7%	4.7%
Avanza Pension	4.2%	4.2%
Aktia Asset Management	3.8%	3.8%
Pasi Tolmunen	3.7%	3.7%
Antti Villanen	3.6%	3.6%
Luxus Micro Cap S.A	3.5%	3.5%

Company description

Nitro Games is a mobile game developer and as of recent a publisher with a decade of experience in developing games for the mid-core user segment. Nitro Games has a long history of stable cash flows from developing contracts from bigger publishers which minimise risk in the business model. Currently a majority of Nitro Games 30 employees are working with a mobile game that will be published by Wargaming.net, the creators behind "World of Tanks" the seventh highest grossing game on PC in 2016.

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

Investment case

- Nitro Games has adapted its business model closely after market conditions. With the NG Platform combined with a proven creative process Nitro Games can launch a mobile game in 5-10 months. Therefore Nitro Games can minimise the amount of time and money spent in every single project minimising risk.
- Netmarble is interested in publishing agreements for Nitro Games selfdeveloped games in Asia, which is the biggest and fastest growing market amongst mobile games. At this point a deepened partnership of this kind is likely and have a potential initial revenue of EUR 0.8-1.2 million.
- One of the biggest values in Nitro Games is the self-developed NG Platform. The platform has been in development for over 4 years. With the NG Platform combined with a proven creative process Nitro Games can launch a mobile game in 5-10 months, typically this takes 6-18 months for most mobile games.

Nitro Games has a long history of stable cash flows from developing contracts from bigger publishers which minimise risk in the business model.

Nitro Games and Netmarble EMEA have signed two Game Distribution and Servicing Agreements. Netmarble is the highest grossing mobile games publisher in Korea. In China and Japan, the publisher's games are top 5 amongst the highest grossing games.

Investment risks

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

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

It is also possible that the company never will succeed in the self-publishing mobile games industry. However, Nitro Games third-party development services are reducing the potential downside in the

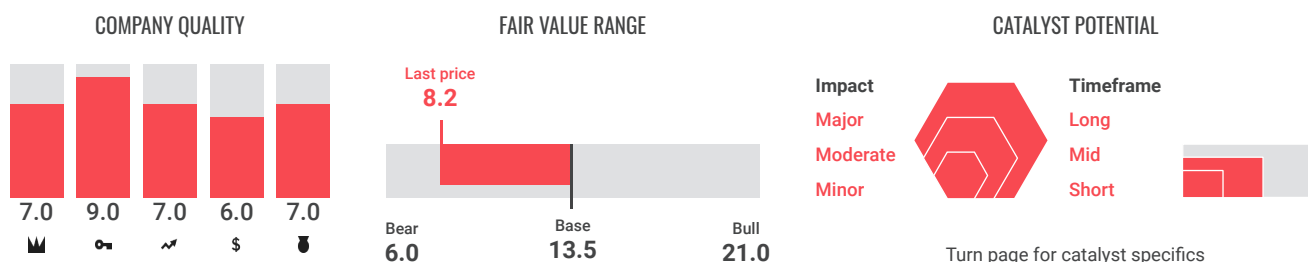
Catalyst types

The gateway to Asia

Netmarble and Nitro Games have signed two publishing agreements for both Medals of War and Heroes of Warland in the Middle-East and Africa. The first publishing deal generated an initial revenue of EUR 0.2 million and the second one generated EUR 0.5 million for Nitro Games. Netmarble is also interested in similar publishing agreements for the games in Asia, including China, Japan and Korea which is the biggest and fastest growing markets amongst mobile games. So a big potential catalyst for the stock is of course if new publishing deals for those countries would be signed. At this point a deepened partnership of this kind is likely and have a potential initial revenue of EUR 0.8-1.2 million. We believe a deal of this kind is possible, which in this case means a probability of 30 percent.

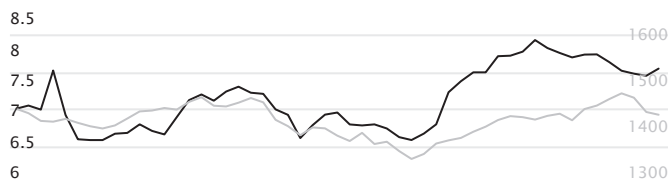
Redeye Rating

Leadership
 Ownership
 Profit outlook
 Profitability
 Capital strength



Snapshot

Remedy Entertainment
OMXS30



Volume



Marketplace First North Finland

CEO Tero Virtala

Chairman Markus Mäki

Share information

Share price (EUR) 8.2

Number of shares (M) 12.1

Market cap (MEUR) 97

Net debt (MEUR) -30

Analyst



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Conflict of interests

Tomas Otterbeck owns shares in Remedy Entertainment: **Yes**

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

Financials

			Redeye Estimates		
	2017	2018E	2019E	2020E	2021E
Revenue, MEUR	17	20	35	44	42
Growth	4.6%	17.3%	75.7%	24.2%	-4.9%
EBITDA	2	1	10	14	8
EBITDA margin	12.9%	3.0%	28.7%	31.9%	19.9%
EBIT	2	1	10	14	8
EBIT margin	11.7%	3.0%	28.7%	30.9%	18.6%
Pre-tax earnings	2	1	9	14	8
Net earnings	2	1	8	11	6
Net margin	10.7%	3.4%	22.5%	24.7%	14.9%
Dividend/Share	0.00	0.00	0.00	0.00	0.00
EPS adj.	0.15	0.06	0.66	0.90	0.52
P/E adj.	0.0	146.8	12.7	9.3	16.2
EV/S	-1.2	4.0	2.0	1.4	1.3
EV/EBITDA	-9.4	132.5	7.0	4.3	6.5

Last updated: 2019-02-21

Owner	Equity	Votes
Markus Heimo Tapio Mäki	28.6%	28.6%
Accendo Capital	22.2%	22.2%
Sami Antero Järvi	5.1%	5.1%
Virtala Tero Tapani	3.1%	3.1%
Reini Mika Olavi	2.2%	2.2%
Taaleritehtaan Rahastoyhtiö Oy	2.2%	2.2%
Tero Sakari Anttoni Tolsa	1.8%	1.8%
Anssi Kalervo Hyytiäinen	1.5%	1.5%
Henri Erik Blåfield	1.1%	1.1%
Timo Matti Sihvo	1.0%	1.0%

Company description

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

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

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

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

Investment case

- Remedy has gone from working with single projects to working with 2-4 projects simultaneously, and as the amount of projects grows, will release games more regularly. The key will be to maintain its quality reputation among gamers.
- Remedy's business model is in transition. The company is moving from a pure "work for hire" model to multi-project model in which the company also partly finances those game developments in which it retains IP ownership.
- Unlike many sector peers, Remedy does not capitalize its development costs. A lack of awareness of this among investors may be partly why Remedy is traded at a discount to similar companies on the stock market.

The new business model suggests more risk for each project, but considerably raises leverage if the game becomes a commercial success. Profitability could improve greatly in the coming years if Remedy continues to develop high quality games. The best example of a similar journey on the Swedish stock market is Starbreeze after the acquisition of Overkill, which went from having financial difficulties to being highly profitable with the release of Payday 2 in 2013.

We believe an important reason for the low valuation is that the market has missed or neglected the change in Remedy's business model. Realistically, this misunderstanding will likely persist until Remedy's next game, Control, is released and the level of its operating margin becomes clearer. The company does not need to take care of depreciation when a game has been released like most of its peers which could have a dramatic positive effect on the EBIT margin.

Catalyst types

Royalty from Crossfire Story Mode

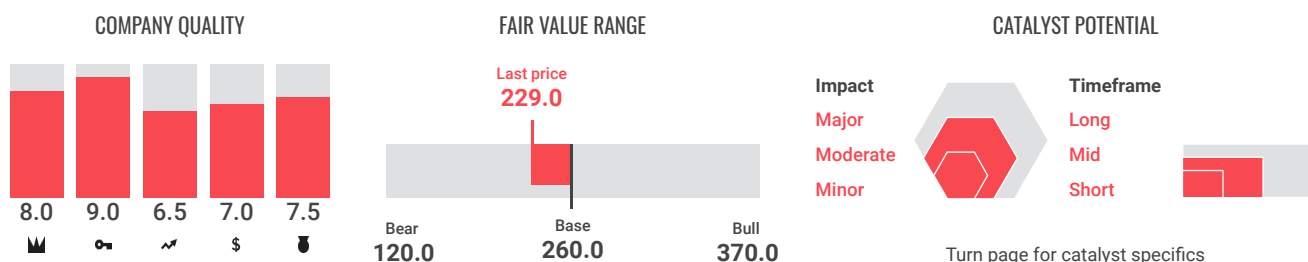
The Story Mode for Crossfire HD is expected to be released in the first half of 2019. We believe there is a variable aspect to this deal, with potential royalties. Remedy has also signed a deal to develop the story mode for Crossfire 2.

The release of Control

Remedy's next game, Control, will be released August 27 2019. Control is expected to launch simultaneously on PlayStation, Xbox and PC. We expect it to sell 1.15 million copies in the second half of 2019. The publisher, 505 Games, will take 55 percent of gross revenue.

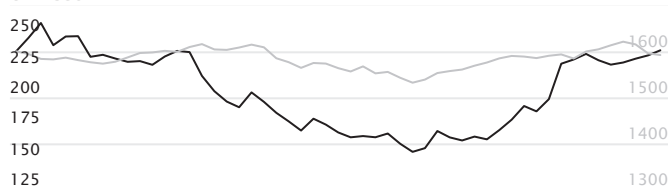
Redeye Rating

Leadership Ownership Profit outlook Profitability Capital strength



Snapshot

Stillfront Group
OMXS30



Volume



Marketplace First North Stockholm

CEO Jörgen Larsson

Chairman Jan Samuelson

Share information

Share price (SEK) 229.5

Number of shares (M) 24.0

Market cap (MSEK) 5,555

Net debt (MSEK) 199

Analyst



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Conflict of interests

Kristoffer Lindström owns shares in Stillfront Group: **Yes**

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

Financials

	2017	2018	Redeye Estimates		
			2019E	2020E	2021E
Revenue, MSEK	166	1,325	1,759	1,998	2,238
Growth	75.0%	>100%	32.7%	13.6%	12.0%
EBITDA	52	473	684	757	844
EBITDA margin	31.5%	35.7%	38.9%	37.9%	37.7%
EBIT	26	348	517	557	616
EBIT margin	15.6%	26.3%	29.4%	27.9%	27.5%
Pre-tax earnings	10	265	412	479	589
Net earnings	6	156	292	340	418
Net margin	3.7%	11.8%	16.6%	17.0%	18.7%
Dividend/Share	0.00	0.00	0.00	0.00	0.00
EPS adj.	0.26	6.62	12.15	14.16	17.38
P/E adj.	692.4	26.4	18.3	15.7	12.8
EV/S	24.5	3.4	3.2	2.7	2.2
EV/EBITDA	77.7	9.5	8.2	7.0	5.9

Last updated: 2019-05-06

Owner	Equity	Votes
Christian och Kai Wawrzinek	26.1%	26.1%
Handelsbanken Fonder	9.4%	9.4%
Första AP-fonden	8.7%	8.7%
Swedbank Robur Fonder	8.4%	8.4%
SEB Fonder	3.2%	3.2%
Carnegie Fonder	2.9%	2.9%
Avanza Pension	2.0%	2.0%
Ålandsbanken I Ägares Ställe	1.8%	1.8%
Prioritet Finans	1.8%	1.8%
Master Creating GmbH	1.8%	1.8%

Company description

Stillfront Group has grown substantially over the past years through acquisitions. Following the massive purchase of Goodgame Studios the Group now has around 350+ highly skilled and experienced game professionals. The company combines the indie studios' agility with a professional public structure in order to attain synergies and efficiency. Stillfront has global reach with more than 5 million monthly active users from over 100 countries. The company listed their shares on Nasdaq Stockholm First North during 2016.

Investment case

- Strong focus on risk: Stillfront has a distinct focus on creating good risk adjusted return to their shareholders. We find that the market do not put enough premium on this ability.
- We believe Stillfront's other core assets will benefit greatly from Goodgames marketing expertise and vast network of active players, likely boost the overall performance of the Group.
- Compared to many gaming peers Stillfront has a solid underlying revenue generation capability and is in a way less dependent on new "hits." The lower risk profile should warrant a premium valuation compared to most comparable companies

Focus on risk and return creates an advantage

We believe Stillfront will continue to deliver significant growth as the company focus on bringing low-risk titles to the market. We also expect underlying growth in the gaming market and an increase in revenues from mobile. The acquisition of Goodgames takes the company to a whole new level; We believe Stillfront's other core assets will benefit significantly from Goodgame's marketing expertise and a vast network of active players, likely boost the overall performance of the Group. Stillfront continues to add new products to their portfolio and the at the end of 2018 the company states that their pipeline is the strongest in the company's history. The highly successful Nida Harb III from Babil Games is going global under the brand Strike of Nations. Even if the global version is only half as successful as the MENA title, then Stillfront have yet another cash-cow at their hands. Early data implies an extremely high monetization rate of Strike of Nations.

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

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

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

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

Catalyst types

Global launch of Strike of Nations

Nida Harb III is now set for a global launch in co-op with Goodgame Studios. The title, which is named Strike of Nations, entered the soft launch in September. We see no apparent reasons why Strike of Nations (Nida Harb III) wouldn't work outside the MENA region.

Call of War now cross-platform

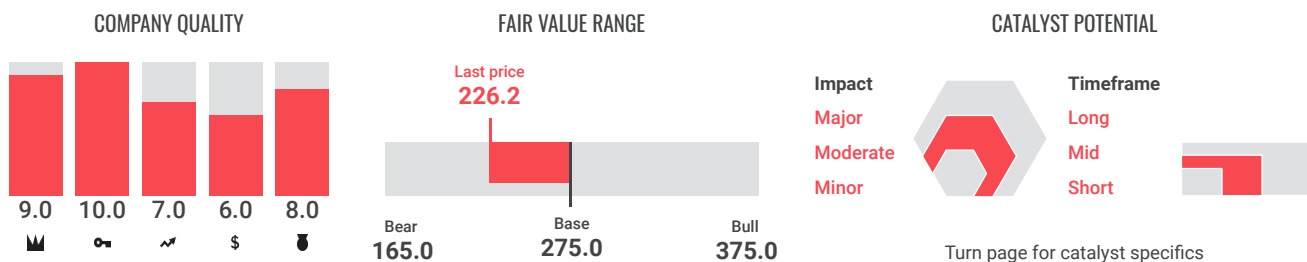
In late October of 2017 Call of War by Bytro Labs was re-released on Steam. The number of users is increasing steadily, and according to Steamspy, the game had over 120k registered users by the start of 2018. The company also launched a native Android app on Google Play by the end of November. Call of War is now true cross-platform title. Players can use a desktop (Steam), mobile app, mobile browser and desktop browser to engage in the gameplay, which should lead to an increased engagement ratio of players and likely increased monetization.

Goodgame synergies

The acquisition of Goodgames takes the company to a whole new level, We believe Stillfront's other core assets will benefit greatly from Goodgames marketing expertise and vast network of active players, likely boost the overall performance of the Group.

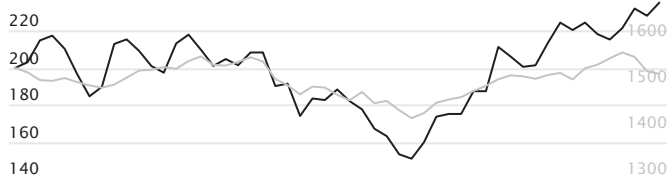
Redeye Rating

Leadership Ownership Profit outlook Profitability Capital strength



Snapshot

THQ Nordic
OMXS30



Volume



Marketplace First North Stockholm

CEO Lars Wingefors

Chairman Kicki Wallje-Lund

Share information

Share price (SEK) 230.4

Number of shares (M) 102.6

Market cap (MSEK) 22,873

Net debt (MSEK) -3,513

Analyst



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Conflict of interests

Kristoffer Lindström owns shares in THQ Nordic: **Yes**

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

Financials

	2017	2018E	Redeye Estimates		
			2019E	2020E	2021E
Revenue, MSEK	508	5,641	5,472	6,186	6,681
Growth	68.1%	>100%	-3.0%	13.0%	8.0%
EBITDA	273	1,276	1,573	1,796	2,234
EBITDA margin	53.7%	22.6%	28.8%	29.0%	33.4%
EBIT	188	583	671	910	1,225
EBIT margin	37.1%	10.3%	12.3%	14.7%	18.3%
Pre-tax earnings	182	583	671	910	1,225
Net earnings	139	413	476	645	868
Net margin	27.4%	7.3%	8.7%	10.4%	13.0%
Dividend/Share	0.00	0.00	0.00	1.89	3.39
EPS adj.	1.75	4.03	4.64	6.29	8.47
P/E adj.	77.0	54.7	47.5	35.0	26.0
EV/S	19.9	3.4	3.5	3.0	2.8
EV/EBITDA	37.0	15.1	12.1	10.3	8.3

Last updated: 2019-04-04

Owner	Equity	Votes
Lars Wingefors	39.5%	54.9%
Swedbank Robur Fonder	9.0%	4.8%
Erik Stenberg	8.5%	11.9%
Handelsbanken Fonder	8.3%	4.4%
CMB Holding AB	2.9%	4.1%
Didner & Gerge Fonder	2.6%	1.4%
Familjen Olsson med stiftelse	2.3%	1.2%
Avanza Pension	1.3%	0.7%
Klemens Kreuzer	1.2%	1.7%
Livförsäkringsbolaget Skandia	1.2%	0.7%

Company description

THQ Nordic has since Lars Wingefors founded the company in 2011, established a strong platform and product portfolio under high growth and profitability. The company has approximately 100 employees and 270 full-time developers. The most important events in the company's history are the acquisition of Austrian listed company JoWood in 2011 and the US listed company THQ in 2013. Both of these businesses had incurred financial insolvency, which in this case means that the firm made these acquisitions out of their bankruptcy estate. This is also the simplest core of Lars Wingefors's entrepreneurial business, when he sees an opportunity in buying something cheaper than he can sell it, he most certainly is interested.

Since the company actively focus on growing their IP portfolio. Today the collection is comprised of 80+ different game franchises, which in the gaming industry is called intellectual property (IP). The game portfolio generates the lion share of the company's revenue; in 2016 71 percent of income and 81 percent of gross profits came from their own IPs. The remaining part of sales and profit comes from global physical distribution.

Investment case

- The company showed significant growth during 2017 but a large part of the IP portfolio is still not generating any income, this will change in the coming years
- THQ Nordics IP portfolio grew significantly following acquiring Koch Media, the asset care possibilities and thus value enhancement is vast
- Owner operator with a highly skilled management team with the right focus on long-term value creation
- The core strategy is to acquire IPs at depressed prices and then enhancing their value, Koch Media acquisition as a prime example

The acquisition of Koch Media is a prime example of THQ Nordic's acquisition strategy and why we continue to be positive to the case. We believe that the market is still to fully grasp the underlying value and cash flow generating capabilities of THQ Nordic's growing IP portfolio, which was enhanced to a significant degree following the purchase of the European publisher.

A large part of the asset value is still untapped

The company showed significant growth during 2017, but a large part of the IP portfolio is still not generating any income. Development projects including a few AAA will be released in the years to come. This will take revenues and the profits to entirely new levels.

THQ Nordics IP portfolio grew significantly following acquiring Koch Media. We believe that the company will use its asset care expertise and unlock a lot of value from the long tail part of the game asset in the coming years. Some key franchises included in the IP portfolio are Darksiders, MX vs. ATV, Red Faction, Delta Force, Titan Quest, SpellForce, Saints Row, Dead Island, Metro and 100+ more.

Focus on long-term value and buying cheap

THQ Nordic is what we like to call an owner-operator company where the management team owns 50%+ of capital, has

extensive experience from the industry and is highly committed to building "something big." We believe there should be a premium on the valuation because of the strong shareholder focus.

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

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

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

Counterarguments (Bear-points)

It is always sensible to develop some counterarguments to an investment thesis. Below, we present some bear-points that an investor should consider and have in mind if the future development is not favorable.

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

Catalyst types

More value-adding acquisitions

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

Aaa titles from Deep Silver and secret project announced

Deep Silver was a part of the Koch Media acquisition. Two studios within Deep Silver is currently developing two AAA titles, the announcement of these games would enhance the visibility of the IP portfolio and likely increase the valuation. One of the large development projects from the "original" THQ Nordic remains undisclosed. This title has the same type of budget as Darksiders 3 have, which should imply a similar sales potential.



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