REDEYE

GAMING GUIDE 2022



REDEYE

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

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

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Leading Nordic Investment Bank

Leading Advisor for Growth Companies

Founded 1999

Under supervision of the Swedish FSA

Ownership Partner owned

Employees 75+

Analysts: 30+
Corporate Advisory: 20

Redeye.se 140,000+

Attracting 140,000+ unique visitors monthly

Corporate Broking 170+

170+ public corporates as clients

Corporate Finance 150+

150+ transactions executed over the last five years

Key Specialties Tech & Life Science

Focused themes 10+

Includes 5G, AI, AR, Autotech, Cybersecurity, Disease of the Brain, Envirotech, Fight Cancer, Digital Entertainment and SaaS

Redeye Corporate Advisory

Leading Advisor for Growth Companies

Corporate Broking

- In-depth research coverage – sector expertise
- Investor events & activities
- Create brand awareness, credibility and manage expectations
- Stratetgic advise regarding how to create the optimal shareholder structure and build a strong and well-positioned financial brand

Corporate Finance

- The go-to adviser for growth companies
- One of the most active advisors within the segment
- Leading adviser within private and public transactions
- Highly skilled team with vast experience from private and public transactions
- Over 150+ executed transactions including IPO:s, preferential rights issues, directed issues

Certified Adviser

- Requirement for companies listed on Nasdaq First North incl. Premier
- Ensures compliance with Nasdaq Rule Book
- CA-breakfast seminars and newsletters to ensure client companies are up-to-date with the latest information and hot topics

ECM

- The most relevant investor network for growth companies
- Matching companies with the right investors
- Broad network of investors including institutional investors, family offices and retail investors



Johan Ekström
Head of Digital Entertainment

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



Tomas Otterbeck
Head of Research

Tomas Otterbeck gained a Master's degree in Business and Economics at Stockholm University. Tomas was previously responsible for Redeye's website for six years, during which time he developed its blog and community and was editor of its digital stock exchange journal, Trends. Tomas also worked as a Business Intelligence consultant for over two years. Since 2016 he has covered several gaming stocks in the Nordic gaming industry. Today Tomas is Head of Equity Research at Redeye.



Hjalmar Ahlberg
Analyst

Hjalmar is an equity analyst within the technology team focusing on gaming and online gambling sectors. He holds a Master's degree in finance and has previously worked within the banking industry with focus on equity research covering various sectors.



Danesh Zare
Analyst

Danesh has a Master's degree in mechanical engineering from the Royal Institute of Technology. He has previously worked as a Calculation Engineer for more than 6 years, holding positions at both Scania and Volvo Trucks. He also produced a finance podcast for nearly two years. Danesh joined Redeye in 2020 and works as an equity research analyst, covering companies in the tech-sector, with a focus on gaming companies.



Viktor Lindström
Analyst

Viktor is an equity analyst in the technology team, focusing on gaming and cleantech sectors. He holds a Master's degree in Finance from University of Gothenburg. Previously, he held positions at Carnegie Investment Bank and Consensus Asset Management.

Adverty

CEO Jonas Söderqvist

Jonas Söderqvist has worked within the media landscape for over 20 years and has managed people for over 15 years. Jonas has held positions within MTG, Smartclip, Specific Media, YuMe, Mediakompaniet, Sellbranch, MTV, and Pubmatic. In addition, Jonas was a Board Member at Adverty before joining as CEO.

Adverty, the leading seamless in-game ad tech company, is developing a version of its Unity SDK to be enabled on the Unity Asset Store, a marketplace where all creators can find, source, and sell everything they need to be successful, including third party assets, tools, and services. Adverty's advertising solution uses Unity to display seamless in-game ads through an SDK launched to the public recently, accessible from the Adverty website www.adverty.com.
In this new installment, the Unity SDK from Adverty will be easily accessible to developers on the Unity Asset Store.

Beyond Frames

CEO Ace St. Germain

Ace St. Germain has 15+ years of experience in the US game and entertainment industry. Ace has vast experience in leading and developing fast-growing companies in an international environment. He has previously worked as a Project Manager at PlayStation, Senior Director of Content at Crunchyroll, and Head of Content at Twitch.

Headquartered in Stockholm, Sweden, Beyond Frames is an XR focused publisher with its development studios Cortopia, Moon Mode and partner studio Odd Raven. Through creative and technical consulting, funding and publishing services, Beyond Frames partners with studios to make amazing XR products. Our main business areas are Publishing, Game Creation through innovation in XR and Transformation of traditional flat-screen games to XR-platforms.

CI Games

CEO Marek Tymiński

Marek Lech Tymiński graduated from the Management Programme in Canadian International Management Institute, Management Development Programme at the University of Virginia and Leadership Development Programme and Advancing Global Leadership Programme in the Center for Creative Leadership. In 1997 he launched his first business enterprise. In the following years, he was Board Member and associate in numerous companies from the electronic entertainment industry. Since 2002, he has been CEO/Chief Executive Officer, founder and chief shareholder of CI Games S.A.

CI Games is a globally renowned independent games developer and publisher, mostly known for its action-driven titles such as the Sniper Ghost Warrior and Lords of the Fallen franchises. As of August 2021, the Sniper Ghost Warrior franchise had sold more than 12.5 million copies and the Lords of the Fallen series more than 3 million copies. The company runs two internal development studios, focusing on its key franchises and operating as an independent publisher for all key gaming platforms (PlayStation, Xbox, PC). On the 15th of October 2021, CI Games announced that they had entered into an agreement with the Czech studio BatFields s.r.o., which will be operating as an external studio, developing games within the survival genre, creating a third internal IP of CI Games. Moreover, in 2018, CI Games founded a new publishing arm called United Label, currently co-operating with four independent studios.

EG7

CEO Ji Ham

Ji Ham has an extensive gaming and finance background and has been Daybreak's CEO for the last six years before joining EG7. During his tenure at Daybreak, Ji has overseen extensive growth and profitability of the company.

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

Flexion

CEO Jens Lauritzson

Jens Lauritzson, deal maker and leader with one of the strongest networks of mobile industry contacts developed over the last 20 years. As a pioneer & entrepreneur, there are not many things he has not seen in terms of mobile games. Before founding Flexion, Jens worked for several mobile games and content aggregators in Europe.

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

G5 Entertainment

CEO Vlad Suglobov

Vlad Suglobov started programming at the age of 11 thanks to his father, and quickly got interested in making games. By 15, he knew he wanted to make games for a living. Vlad's first job that he took at the university was as a game programmer. This was where he met Alik and Sergey and in 2001 they set out to establish a mobile game studio that would eventually become G5 Entertainment Group.

M.O.B.A. Network

CEO Björn Mannerqvist

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

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

Media & Games Invest

CEO Remco Westerman

Remco Westermann has been the chief executive officer of gamigo since November 2012 and the chairman of the Company's Board of Directors since May 2018. Remco holds a master's degree in business economics and has over 25 years of professional experience, over 15 years of which he has worked in the mobile and online entertainment industry. In the course of his career, he founded the listed company Bob Mobile AG (later Cliqdigital AG). He also helped build the mobile media company Sonera Zed and managed its German subsidiary for several years as chief executive officer. Previously, Remco was a manager at leading companies such as Balance Point and a consultant at Rost & Co. In the dynamic, highly competitive and fast growing games market, Remco has built up a leading and fast-growing online games company through a successful M&A strategy following the acquisition and repositioning of gamigo. In 2018, Remco acquired a majority stake in the Company and aligned its business model to "buy, integrate, build and improve" in the gaming and media sectors.

Media and Games Invest SE is a digitally integrated games and media company with main operational presence in Europe and North America. The company combines organic growth with value-generating synergetic acquisitions, demonstrating continuous strong, profitable growth with a revenue CAGR of 78% (2018 – LTM Q2'21). Next to strong organic growth, the MGI Group has successfully acquired more than 30 companies and assets in the past 6 years. The acquired assets and companies are integrated and amongst others cloud technology is actively used to achieve efficiency gains and competitive advantages

Nitro Games

CEO Jussi Täthinen

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

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

Remedy Entertainment

CEO Tero Virtala

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

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

Starbreeze

CEO Tobias Sjögren

Since 1996, **Tobias Sjögren** has been active in the computer game industry in production, business development, sales and management. Most recently, Tobias was CEO of the company White Wolf Entertainment and has previously worked at Paradox Interactive, Stardoll and the international agent company DDM Agents. Tobias was the head of DICE Stockholm's studio while the first Battlefield game was launched.

Starbreeze is an independent developer, creator, publisher and distributor of PC and console games targeting the global market, with studios in Stockholm, Barcelona and Paris. Housing the smash hit IP PAYDAY, Starbreeze develops games based on proprietary and third-party rights, both in-house and in partnership with external game developers.

Thunderful Group

CEO Anders Maiqvist

Anders Maiqvist was CFO of Thunderful Group before his current role as Acting CEO. Anders holds an MSc in Industrial Economics from Chalmers University of Technology. Anders has previously been the CFO of Bergsala Since 2016. Before that, he was CFO of People's Choice and deputy CEO and CFO of Prognosia.

Thunderful Group AB is a Swedish video game holding company based in Gothenburg. It was founded in December 2017 by Brjánn Sigurgeirsson and Klaus Lyngeled, in conjunction with Bergsala Holding, as the parent company for their Gothenburg-based game development studios, Image & Form and Zoink. Thunderful was expanded into the Thunderful Group in December 2019, taking over Bergsala Holding's distribution companies. Image & Form and Zoink make for Thunderful Group's Thunderful Development branch, Thunderful Publishing AB (founded in 2017) and Rising Star Games (acquired from Bergsala Holding in 2018) form the Thunderful Publishing branch, and the Thunderful Distribution covers Bergsala, Amo Toys Nordic, and Nordic Game Supply.

Zordix

CEO Christina Seelye

Christina Seelye joined Zordix as the CEO this year. Before joining Zordix, Christina founded and drove several gaming and software growth companies. In addition, Christina has over 20 years of experience managing profitable growth companies, including M&A and launching games and software internationally.

Zordix AB (publ) is the parent company of an expansive multinational group focusing on game development and publishing for consoles and PC. Group headquarter is located in Umeå with a strong connection to the Swedish gaming industry. The Zordix Group has altogether developed and published more than 65 games. Zordix AB (publ) is listed on Nasdaq First North Growth Market in Stockholm



Gaming Coverage Overview

MSEK Company	Listed Country	EV SEKm	Business type	Main platform	Main revenue model	Game portfolio	Revenue div.
LISTED REDEYE CLIENTS							
Embracer Group	Sweden	61 100	Dist/Pub/Dev	PC/Console	Premium	<300	High
Remedy Entertainment	Finland	2 026	Dev	PC/Console	Premium	<5	Low
CI Games	Poland	979	Pub/Dev	PC/Console	Premium	<10	Low
Thunderful Group	Sweden	1 700	Dist/Pub/Dev	PC/Console	Premium	<50	Medium
Zordix	Sweden	574	Dist/Pub/Dev	PC/Console	Premium	<30	Medium
G5 Entertainment	Sweden	1 200	Pub/Dev	Mobile	Free to Play	<30	Low
Starbreeze	Sweden	1 000	Pub/Dev	PC/Console	GaaS	<5	Low
Flexion Mobile	Sweden	741	Dist/Pub	Mobile	Free to Play	<30	Medium
Media and Games Invest	Sweden	5 754	Pub/Dev/Media	PC	GaaS	<20	Medium
M.O.B.A Network	Sweden	357	Community	Internet	Advertsing	<30	Medium
Adverty	Sweden	46	Tech Platform	Mobile	Advertsing	<10	Low
Nitro Games	Sweden	219	Pub/Dev	Mobile	Free to Play	<5	Low
Beyond Frames	Sweden	235	Pub/Dev	PC/Console	Premium	<5	Low
Enad Global 7	Sweden	1 200	Pub/Dev/Media	PC/Console	GaaS	<20	Medium

Source: Redeye, Bloomberg



	Sales 22E SEKm	EBIT 22E	EV/Sales	EV/EBIT	Stock price**	Redeye fair value		
						Base	Bear	Bull
LISTED REDEYE CLIENTS								
Embracer Group	39 751	9,752	1,5	6,2	51,8	134	86	178
Remedy Entertainment	2 026	-39	4,3	neg	17,8	32	14	54
CI Games	132	29	7,4	34,2	2,5	3,7	2,7	5,5
Thunderful Group	3 191	161	0,5	10,6	19,5	51	34	71
Zordix	1 266	118	0,5	4,9	13,6	46	25	69
G5 Entertainment	1 421	226	0,8	5,3	182	510	290	760
Starbreeze	102	-18	9,8	neg	0,9	2,2	0,8	5
Flexion Mobile	820	38	0,9	19,6	14,9	30	11	41
Media and Games Invest	3 260	548	1,8	10,5	17,5	55	30	80
M.O.B.A Network	315	40	1,1	8,9	18,3	35	26	47
Adverty	43	-18	1,1	neg	1,6	3,8	1,3	7,9
Nitro Games	87	-11	2,5	neg	15,6	27	15	45
Beyond Frames	35	-12	6,7	neg	16,3	23	14	39
Enad Global 7	1 737	283	0,7	4,2	15,7	39	26	70



Redeye Gaming Guide 2022





Interviews questions with CEOs at our Client Companies

The questions we asked the CEOs of our Client Companies were:

1) Can you tell us about the major highlights in your company during 2022?

2) What will be your main focus in the next coming 12 months? Where do you see your best opportunities to grow?

3) The gaming business is highly competitive. What competitive advantage in your product offering will make your company a winner long-term?

4) Consumers will have much softer pockets in a mid-term perspective due to the current aggressive cost inflation. How will this affect your business?

And additional questions depending on the business focus.

Mobile Games:

Mobile games with a business model dependent on ad-revenue has had an explosive growth in popularity and revenue the recent years. In the Americas mobile ad revenue increased by 3X in less than three years. In China and Japan almost 60% of developers rely more on ad revenue than IAP revenue. Will your company's main priority be ad revenue the coming years? Why or why not?

PC/Console Games:

The VR market is the fastest-growing niche segment in gaming. Will your company bet on this trend in the next few years? If so, how?

Will the (PC/Console) gaming industry for premium games differ from the film industry in the future? Meaning only blockbuster IPs and indies will be released with a premium business model and the rest will be released on a subscription platform?



Ace St. Germain, CEO
Beyond Frames

1) Can you tell us about the major highlights in your company during 2022?
2022 brought us record-breaking growth, a great showing with the launch of Wands Alliances, 3rd party publishing deals with incredible studios, and continued partnerships with hardware partners. Particularly happy to keep working with Meta and Pico on their ongoing efforts to scale the market.

2) What will be your main focus in the next coming 12 months? Where do you see your best opportunities to grow?
1st party development and 3rd party publishing are still major focus points for us. Quality software is what drives retention and adoption for this market, and building and investing in new games based on the proprietary data we've collated since our founding. Moving forward, in addition to developing and publishing games, we will spend more time on partnerships to secure well-known IP as well as development funding from new and incumbent hardware partners.

3) The gaming business is highly competitive. What competitive advantage in your product offering will make your company a winner long-term?
It's far more competitive in the flatscreen arena. Relatively speaking, getting a higher market share in the XR space is less difficult due to the lack of competition. This, in general, is the advantage of being in VR. Long-term, we feel our 3rd party publishing effort is what will be our biggest source of growth. We believe in investing in small to mid-sized games with outsized potential versus making a few, high-risk bets.

4) Consumers will have much softer pockets in a mid-term perspective due to the current aggressive cost inflation. How will this affect your business?
Like many markets, gaming has softened recently despite being seen as "recession-proof". Relative to the market, we've seen the sales of our catalog titles grow, but it would be foolish for us not to prepare for headwinds. This is why we're focusing more on partnerships and other business development efforts to offset the costs of development and marketing.

5) Will the (PC/Console) gaming industry for premium games differ from the film industry in the future? Meaning only blockbuster IPs and indies will be released with a premium business model, and the rest will be released on a subscription platform?
With subscriptions like Microsoft Game Pass and PlayStation Plus, the era of "Netflix for Games" is already here for premium priced games. Similar to film, I believe most premium games will continue to work on a layered distribution strategy where games launch their first window with a premium price before moving to subscription in a later window. Exclusives and simultaneous launch titles in these services are already in play, and likely to increase near-term as efforts to scale continue.



Ji Ham, CEO
EG7

1) Can you tell us about the major highlights in your company during 2022?
We have had a much stronger performance than we expected from the service segment, specifically as our business Unit Fireshine accelerated its digital indie game publishing capabilities meanwhile defending its position within physically distributed games with a UK chart number one title. My Singning Monster has never been stronger after a really successful easter campaign, which has given them an attractive position when now launching the 10h year anniversary celebration campaigns. We expect a boost in Daybreaks Lord of the Ring Online in conjunctions with the Amazon series that was launched a few week back with great attention. Petrol launched one of the most successful marketing campaigns with Eldenring in the first quarter, which strengthen their brand in the world of Actavision/ Blizzard and Bandai Namcos of the world. Meanwhile the live game portfolio continues to deliver strong performance. We have also taken some important steps to reduce the overall risk level in the group and now we are at a point where the risk reward profile is attractive, something we showed by making some serious insider purchases in May.

2) What will be your main focus in the next-coming 12 months? Where do you see your best opportunities to grow?fdgmr
EG7 is now at a good point, with an attractive risk reward position. We also see upside from where we stand today with regards to our own game releases, strong indie game release pipeline, investments in those live games we operate ourselves . We have a potential to increase our cash generation as some of our games are getting published and we get paid. We have over 250 employees in the independent studios and after launch we could evaluate increasing the WFH part of the business, this will further increase the stability and fuel the net revenue, profitability and cashflow. Fundamentals that we will focus on going forward. We have a diversified group of assets which has proven to grow in parallel in a growing gaming market. Petrol has not the most scalable business model, but otherwise we have potential to perform well across the group. Time will tell.

3) The gaming business is highly competitive. What competitive advantage in your product offering will make your company a winner long-term?
With our strong diversification between recuring revenues within our Game segment that consist of some of the industry's strongest MMO-titles and our Service segment with a strong pipeline. We have a unique business model that is not depending on a few titles to succeed. Instead, we have a model with lower risk, more stable and recuring revenues and predictable cash flows. A few examples of the long product life cycle for us are EverQuest one of the most Iconic games celebrating its 23rd anniversary, Lord of the Ring has its highest active user base since 2016 and is celebrating its 15th anniversary, My singing monster has never been stronger and is celebrating its 10th anniversary. We have proven to be strong over a long period despite new game releases that compete with us.

4) Consumers will have much softer pockets in a mid-term perspective due to the current aggressive cost inflation. How will this affect your business?
No business is immune to inflation. If they say so they lie. But the gaming industry is the cheapest entertainment when looking at money spend per hour of entertainment. On top of that a majority of EG7s revenues comes from MMO games with a freemium model. With a 23-year history in titles such as EverQuest our experience gives us confident to take on a potential economic turmoil with confidence.

5) Will the (PC/Console) gaming industry for premium games differ from the film industry in the future? Meaning only blockbuster IPs and indies will be released with a premium business model and the rest will be released on a subscription platform?
Many things indicate that the industry is heading that way. Another angle in the comparison with the film industry that we look at is the WFH business. Today 90 percent of the film business is outsourced while the same number for the game industry's is only 40 percent.



Jens Lauritzson, CEO
Flexion Mobile

1) Can you tell us about the major highlights in your company during 2022?
One of the biggest highlights has been our move into influencer marketing through acquisition and investments. We acquired Audiencly, a leading influencer marketing agency and invested in Liteup Media, an exciting startup with a new and disruptive service for influencer marketing on TikTok. These two deals have given us a strong foothold into this new and upcoming marketing vertical within gaming.

On top of this, we generated 81% organic revenue growth and 97% total revenue growth during the first half of 2022 which meant that we updated our market guidance for the year to 90-110% growth in total revenue. As our cost base within organic revenues is very stable, we have also seen strong EBITDA growth during this period.

2) What will be your main focus in the next-coming 12 months? Where do you see your best opportunities to grow?
We continue to focus on our key areas of growth which are sourcing of new top grossing titles and expansion of our distribution power. In parallel, we are looking at increasing our marketing offering within influencer marketing and user acquisition and in addition to expand into other marketing verticals within gaming.

3) The gaming business is highly competitive. What competitive advantage in your product offering will make your company a winner long-term?
Our strategy is to identify, develop and invest in marketing services for game developers where we can become a clear leader. We have built an unchallenged and unique position within alternative distribution of mobile games where we work with some of the top developers in the world. This allows us to expand into exciting new verticals such as influencer marketing where we can take advantage of synergies through cross selling of services to leading developers and publishers.

4) Consumers will have much softer pockets in a mid-term perspective due to the current aggressive cost inflation. How will this affect your business?
Our focus on the top grossing segment of the market with less price sensitive consumers means that we remain positive and continue to see strong underlying growth. Traditionally, the games industry tends to perform relatively better in bad times and we see no reason for this to change.

5) Mobile games with a business model dependent on ad-revenue has had an explosive growth in popularity and revenue in recent years. In the Americas mobile ad revenue increased by 3X in less than three years. In China and Japan almost 60% of developers rely more on ad revenue than IAP revenue. Will your company's main priority be ad revenue in the coming years? Why or why not?
Our focus so far has been on IAP revenue and buying customers and less so on ad revenue. In some cases we also benefit from ad revenue and this is an area which we might explore further in the future. However, ad spend tends to be more sensitive to fluctuations in the global economy and this might have some impact on ad funded games in the near future.



Marcus Teilman, CEO
Fragbite

1) Can you tell us about the major highlights in your company during 2022?
Successfully registration as Virtual Assets Service Provider in Gibraltar (Web3) and then a successful token sale of 3.35 MUSD. We're building up a strong foundation within Web3 gaming. Playdigious has signed a deal with Netflix to launch Spiritfarer. Fragbite AB has launched Swedish CS:GO Cup with the four best CS teams globally that will participate. Funrock/Prey Studios has launched MMA Manager 2

2) What will be your main focus in the next-coming 12 months? Where do you see your best opportunities to grow?
To grow within all four business units. Web3 has a great potential and we plan to launch the new Web3 game Solcadia (incl more NFT sales), more token sales incl an IDO. Funrock/Prey plan to publish MMA2 in Asia and in the MENA region and also potential sequels. Playdigious is looking into expanding their capacity even further. Fragbite is building up Swedish CS:GO Cup as a strong IP within Swedish e-sports.

3) The gaming business is highly competitive. What competitive advantage in your product offering will make your company a winner long-term?
We have strong and proven brands with a great reputation within our industry. Playdigious and Lucky Kat has a strong reputation within the industry. Fragbite AB is a leading player within e-sports in the nordics. As a Group, we are unique in being a listed company that is also regulated within Web3. And then also diversified since we are also active within e-sports and not only "pure gaming".

4) Consumers will have much softer pockets in a mid-term perspective due to the current aggressive cost inflation. How will this affect your business?
We need to keep in mind that the global gaming market is huge with many active players. Their spending "per capita" is not substantial. I think that the economic situation is not so dependent on the behaviour/spending on gaming/entertainment, should we be in a strong or weak economic environment. We believe the active users will continue to spend more or less in line with current levels. On top of this, the gaming market is estimated to continue to grow.

5) Mobile games with a business model dependent on ad revenue has had an explosive growth in popularity and revenue the recent years. In the Americas mobile ad revenue increased by 3X in less than three years. In China and Japan almost 60% of developers rely more on ad revenue than IAP revenue. Will your company's main priority be ad revenue in the coming years? Why or why not?
Today, it's only Funrock/Prey studios as well as Lucky Kat (Hypercasual part of their business) that has ad revenues, since Playdigious is publishing paid games. In Funrock, we see that the share of ad revenues is increasing, however IAP revenues is still in majority.



Vladislav Suglobov, CEO
G5 Entertaintment

1) Can you tell us about the major highlights in your company during 2022?
Our best performing game Sherlock continued to advance this year achieving new all-time high almost every month, both in terms of the levels of audience and revenue. The "Jewels of" family of games is also performing very well. We continued to be on track with updates and new releases despite the Russian invasion into Ukraine where we have many employees, we supported our employees, and they are back to work in full capacity. We expect a stronger second half of the year, especially in terms of earnings.

2) What will be your main focus in the next coming 12 months? Where do you see your best opportunities to grow?
Sherlock continues to demonstrate exciting prospects. The game is still very far from the highest monthly revenue levels G5 has seen from its top hidden object games, but there is still future growth potential.

Jewels of Rome and other games in this series are gradually evolving and adding features which helps improve revenue gradually. As part of our portfolio approach, we are also going to be bringing some exciting new games to the market, in the never-ending process of finding new hits.

3) The gaming business is highly competitive. What competitive advantage in your product offering will make your company a winner long-term?
It is very competitive, and yet G5 has been in this business for over 20 years with continual growth in revenue and earnings. We have an excellent team and a laser focus on the needs of our loyal audience, which we have served all these years. Our players are predominantly female 35+ and our games target this audience, which is only set to expand over time.

4) Consumers will have much softer pockets in a mid-term perspective due to the current aggressive cost inflation. How will this affect your business?
(Like Apple) we are not increasing our in-app purchase prices, and we believe our customers will appreciate it. Our games are free-to-play. This is the kind of entertainment people love when they have softer pockets, and if indeed more difficult times are ahead, free-to-play games should do fine, or become even more popular.

5) Mobile games with a business model dependent on ad-revenue has had an explosive growth in popularity and revenue the recent years. In the Americas mobile ad revenue increased by 3X in less than three years. In China and Japan almost 60% of developers rely more on ad revenue than IAP revenue. Will your company's main priority be ad revenue the coming years? Why or why not?
99% of our revenue still comes from in-app purchases. Some games are best monetized with ads, some with in-app purchases, and our games are on the IAP end of the spectrum, but we believe that we can over time increase our revenue from ads at least several times more than we do now, without sacrificing our in-app revenues. Ad monetization is an important growth point for us.



Jussi Tähtinen, CEO
Nitro Games

1) Can you tell us about the major highlights in your company during 2022?
We've had a great year so far. We've been able to grow our B2B service business by signing record deals from both new and returning customers. And now after the summer, we're focusing on the launch phase with NERF: Superblast, our new first person action game on mobile.

2) What will be your main focus in the next-coming 12 months? Where do you see your best opportunities to grow?
Moving forward, we naturally plan to continue growing our B2B service business. The biggest growth potential is definitely in our biggest game launches. We're currently busy with the launch phase of NERF: Superblast. We also have another upcoming launch scheduled for next year with the new unannounced game that we just acquired from Doomsday.

3) The gaming business is highly competitive. What competitive advantage in your product offering will make your company a winner long-term?
Quality. We focus on the category of action and shooter games, which means we do games with high complexity technically and high production value for the players. This means there's not too many competing studios out there who are able to do what we do, and therefore, also less competing games.

4) Consumers will have much softer pockets in a mid-term perspective due to the current aggressive cost inflation. How will this affect your business?
We've looked into various predictions about the impact of inflation for consumer spending in games. Given that our B2C customers pay with small micro transactions we don't expect a notable impact. Also, a considerable part of our business is B2B where we work with leading industry companies. So therefore any changes in consumer behaviour towards spending less won't affect our business too dramatically.

5) Mobile games with a business model dependent on ad-revenue has had an explosive growth in popularity and revenue the recent years. In the Americas mobile ad revenue increased by 3X in less than three years. In China and Japan almost 60% of developers rely more on ad revenue than IAP revenue. Will your company's main priority be ad revenue the coming years? Why or why not?
I wouldn't go as far as saying that ad revenues will be the main priority, but they definitely play a role for us. We do free-to-play mobile games, and it's part of the dynamics of our business model that only a fraction of our customers make In-App Purchases (IAP's). Therefore, having ad monetisation is a normal part of our game economy.



Remco Westermann, CEO
Media and Games Invest

1) Can you tell us about the major highlights in your company during 2022?
Our major highlight is that we exceeded the expected revenue and EBITDA growth rates reflected in our 2022 Guidance and despite macroeconomic headwinds. Following our transformation into an Advertising Software Platform with our own first-party games content, we were again able to realize strong -18%- organic growth in the first half year. The strong organic growth was achieved because we were able to substantially increase the number of our software clients using our end-to-end multichannel advertising platform from 418 to 513 during H1, which is a good basis to drive further growth throughout the rest of the year. This encouraging performance is underlined by our strong profitability as well as cash generation capability with an Adj. EBITDA of 38.6 mEUR during H1, which corresponds to an YoY Adj. EBITDA growth of 34%.

Two real highlights this year were the acquisitions of AxesInMotion and Dataseat, which completed our integrated advertising software platform with strong mobile first party games content as well as a strong programmatic contextual user acquisition platform. With the further increased first-party data base through the acquisition of AxesInMotion and the strong additional contextual advertising capabilities through the acquisition of Dataseat, we are well positioned to continue organic growth, despite potentially weaker advertising spend ahead due the overall economic pressure. After these both additions to the group, M&A is no longer a priority and the focus lays on organic growth and free cashflow generation.

A further important focus for us was preparing for our relocation to Sweden, which will substantially improve the company's governance. The governance improvements, amongst others, include the establishment of a nomination committee, extending the board from four to six members and splitting the role of Chairman and CEO.

2) What will be your main focus in the next-coming 12 months? Where do you see your best opportunities to grow?
In the upcoming 12 months we will focus on unlocking the synergies of our acquisitions and on accelerating our organic growth via eg. adding new customers as well as extending our share of wallet with existing customers. Historically we have been an acquisition-driven company. Based on the critical mass we have created however in combination with investing in our growth, organic growth is what now drives further strong revenue and ebitda growth. Our now complete full stack platform, that equally serves both the advertiser demand side and the publisher supply side, connects advertisers with more than two billion consumers. In the past years we have built one of the largest proprietary first-party data platforms in the advertising market, a platform which is just starting to scale. Our ambition is to become one of the top 5 leading ad software platform. We can now focus on extracting value from synergies, driving innovation, spinning the flywheel and grabbing market shares from competitors and walled gardens. Last but not least, with our strong cashflows, we will also focus on deleveraging and strengthening our balance sheet, by way of reducing our net leverage ratio and increasing our free cash flow generation.

3) The gaming business is highly competitive. What competitive advantage in your product offering will make your company a winner long-term?
Our games portfolio consists of 5,000+ Mobile & Casual games and 10 Massively Multiplayer Online (MMO) games. With regards to Mobile and Casual games, our strategy to grow our business is leveraging the capabilities of our own ad software platform: we can lower user acquisition cost for our games and maximize the monetization of the ad spaces. More than 350 casual game launches per year, coupled with an integration to MGI's ad software platform, is what generates organic growth for our casual games portfolio and gives us a clear competitive edge over competitors. This is also the main reason why AxesInMotion chose our M&A bid; we were able to show the founders that by choosing MGI and integrating our ad software platform, we can clearly maximize their in-game-ad revenues while also driving user growth through MGI's demand side platform.

When it comes to the MMO business, player loyalty is key. An interesting fact is that more than 50% of Revenues in our MMO portfolio stem from players who have played the game for more than five years. We invest in their loyalty by bringing new content updates and engaging with the community. On top of keeping loyal players engaged, we are also focused on attracting new players; For our MMOs Wizard101 and Pirate101, we see that around 22% of Revenues are generated from players who have played the game for one year or less, which is unusually high for MMOs that have been active in the market for more than 10 years. The reason for this spike is because we increased our marketing efforts in Wizard101 and Pirate101 following their acquisitions in 2021 and because we launched the Wizard101 game in Europe. We are also very excited about our new game launches, which we can support with our platform strength. Fantasy Town and Fractured are two exiting games that currently are

in launch mode. As always, we however want to point out that with over 2,000 monthly game launches in the overall market, most games will not be successful; in our guidance we take that into account. However first data points as well as player feedback, give us a very good feeling.

4) Consumers will have much softer pockets in a mid-term perspective due to the current aggressive cost inflation. How will this affect your business?
Historical data show that in-home entertainment such as gaming does not necessarily suffer when there are inflationary or recessionary pressures, thus we believe that our games portfolio would remain relatively robust in the face of such macro challenges. Especially, as we drive mainly free-to-play games where consumers just spend a few euros in micro-transactions instead of paying 60-100 EUR for many triple A games.

On the other hand, we have observed that CPMs and take-rates are going down across the board for the programmatic advertising industry. We have also observed however, that our business showed robustness during H1 with 18% organic growth. Our ad impressions also continued to grow very strongly in Q2 with 60% organic growth year-on-year, while we also added just in Q2 more than 30 new software clients generating at least US$ 100K in revenue per year. Connecting approximately two billion users, we have built one of the largest proprietary first-party data platforms in the advertising market. It is also important to highlight that 70% of our revenue stems from the North American market, which has shown much more resiliency than the European market in terms of ad spend. Also, with programmatic advertising being the most efficient way of advertising, we expect a further shift towards programmatic, which will also support our growth.

Looking forward, there usually is a strong seasonality in ad spend as it is skewed towards H2. Revenues increase typically by 20-30% in H2 due to seasonality effects. As we had a strong H1 well above the previous year we are thus confident for the second half of the year. Finally, we have market leading solutions suited for a post-IDFA world, as we can effectively do audience targeting for advertisers and marketers. There is also evidence that the Open Web is grabbing market share from the so-called Walled Gardens because our solutions offer much more transparency and data control for our partners.

Taking all of this into account we expect further strong growth even though our speed of growth is negatively impacted by external factors. We have confirmed our guidance for 2022.

5) Mobile games with a business model dependent on ad-revenue has had an explosive growth in popularity and revenue the recent years. In the Americas mobile ad revenue increased by 3X in less than three years. In China and Japan almost 60% of developers rely more on ad revenue than IAP revenue. Will your company's main priority be ad revenue the coming years? Why or why not?
For our Mobile & Casual games, we use different monetization models such as free-to-play (F2P), advertisement, subscription-based and in-app purchase (IAP), mostly also combined. This allows us to manage risk in times of uncertainty and fluctuations. You are correct in pointing out that the ad revenue business model is increasingly popular, especially in times where customer's pockets are being squeezed by inflation and are thus less reluctant to pay directly for a subscription-based service for example. This trend can also be seen outside of mobile games; e.g. Netflix is also considering generating revenue through advertisement in light of the massive losses in their subscriber base. MGI is evidently very well positioned to take full advantage of this shift, as we have ample experience with in-app item sales, as well as subscriptions and on top have our own ad software platform which makes us most efficient on the ad monetization side.



Tero Virtala, CEO
Remedy Entertainment

1) Can you tell us about the major highlights in your company during 2022?
Building a well-functioning multi-project model has been one of the key strategic guidelines we have followed during these past 5 years. In 2022, we reached a state in which we have capabilities to develop five big games at the same time. The cherry on top was the announcement of the 5 th game, Max Payne 1 & 2 Remake with Rockstar Games, in May 2022.

Our focus in 2022 is on executing this high-quality game roadmap that we and our partners trust in. We want to make sure that we have a steady flow of successful game launches, starting from next year, 2023. And very importantly, our capability to develop these games is stronger than ever. In May 2022, we also reached an important milestone when our shares were transferred from the First North Growth Market to the official list of Nasdaq Helsinki. This increases Remedy's brand awareness, improves the liquidity of shares, and helps to broaden our shareholder base.

2) What will be your main focus in the next-coming 12 months? Where do you see your best opportunities to grow?
We have five world-class games in development with strong partners: Two Control games (CodenameCondor and Codename Heron) with 505 Games, Alan Wake 2 with Epic Games Publishing, Vanguard with Tencent and Max Payne 1&2 Remake with Rockstar Games.

Over the next 12 months, we will focus on ensuring that the development of these games proceeds as planned and that we will have a steady flow of successful game launches, first of them being in 2023. Launching the currently developed games offers us significant future opportunities. As most of these games offer long-term engagement or are service-based, they will provide further growth opportunities during their lifecycle. Four of these games are based on Remedy-owned brands, and with successful game launches, these brands will become stronger and create additional opportunities for us.

3) The gaming business is highly competitive. What competitive advantage in your product offering will make your company a winner long-term?
Remedy has a strong track record of developing successful, high-quality and distinctive games and game brands. Our games are known for their immersive worlds, interesting characters and memorable stories, combined into high-quality action gameplay. We have always been able to develop games that stand out in the market and offer players something unique. Now these games are growing bigger and engaging players for a longer time. At the same time, they strengthen the underlying brands, growing the fanbase for years to come.

4) Consumers will have much softer pockets in a mid-term perspective due to the current aggressive cost inflation. How will this affect your business?
In 2022 and 2023, we will still mainly focus on developing our five games. In all these game projects, we have partners who are paying all, or part, of the development costs. Thus, we have a lower risk, as well as a quite predictable and significant B2B revenue stream. So, before these upcoming game launches, we are less dependent on consumer spending.

Having said that, our main focus is on successfully launching the games with our partners, starting from 2023. This will offer us much bigger and higher-profit long-term growth opportunities. Therefore, in the mid-to-long term, the development of the consumer market is highly important to us as well. Traditionally, the game industry has withstood recessions quite well. However, we don't expect the game industry to be totally immune to the impacts of the current aggressive cost inflation and the pressure it puts on consumer spending. On the other hand, the playing time of a game is typically on average dozens of hours and can even stretch into years, making it "money-well-spent" also during an economic downturn.

5) Will the (PC/Console) gaming industry for premium games differ from the film industry in the future? Meaning only blockbuster Ips and indies will be released with a premium business model and the rest will be released on a subscription platform?
This is a very interesting question. The gaming industry will continue to grow in the long-term, and because so many different technologies affect the development and consumption of games, it is likely that the industry continues to change and evolve rapidly. During the last 20 years, our industry has undergone various disruptive changes. There has often been a fear that a big change or a newcomer will cannibalize other alternatives, but the outcome has almost always been an expanding, more versatile industry.

Subscription services are likely to be an important part of our industry, but it's probable that other business models will also prevail, and new ones will emerge. Naturally, we analyze and take subscription options into account in our games, but we are also prepared for all outcomes. One of the ways to ensure that is to focus on what doesn't change: No matter what the future distribution and sales models will be, consumers will always look for high-quality games and the brands they love. The longer these games engage users, the more value they can create. Being able to create these types of games and own the brands and games also makes us a highly interesting partner to big gaming platforms, services, and other industry players. This enables us to succeed in various future scenarios.



Rade Prokopovic, Founder & CEO
Sozap

1) Can you tell us about the major highlights in your company during 2022?
We have established our MVP process (minimum viable product) and initiated market tests with several new game concepts. The team behind ARMED HEIST has improved the user experience and is now focusing on releasing the PvP feature (Player VS Player), which we believe will give the game a new dimension and possibility for further growth.

2) What will be your main focus in the next coming 12 months? Where do you see your best opportunities to grow?
Our strategy during 2022 has been to realize as many game concepts as possible according to our MVP strategy. We now have several parallel projects being developed and evaluated according to our MVP strategy. Where early numbers on our sports hunting and fishing projects show great potential. Our focus during the coming 12 months will be to show how this yield results in the form of more entertaining titles that engage users long-term and globally.

3) The gaming business is highly competitive. What competitive advantage in your product offering will make your company a winner long-term?
We focus on developing scalable game titles with a strong monetization core. Our current organization, cost level, and established MVP process give us the ability to quickly develop and test our ideas on the market, at the same time allowing us to efficiently scale the titles that prove market traction.

4) Consumers will have much softer pockets in the mid-term due to the current aggressive cost inflation. How will this affect your business?

The games industry has been described as recession-proof; my understanding is that the 2008 recession had zero to none effect on the game industry. And with our revenue model, free to play, we in fact create and balance our own economy, having the ability to adjust to the world around us.

5) Mobile games with a business model dependent on ad revenue has had an explosive growth in popularity and revenue the recent years. In the Americas mobile ad revenue increased by 3X in less than three years. In China and Japan almost 60% of developers rely more on ad revenue than IAP revenue. Will your company's main priority be ad revenue in the coming years? Why or why not?

Our focus is and will be to create the best user experience with the goal to engage users long-term by utilizing the most suitable revenue model for each specific project.



Tobias Sjögren, CEO
Starbreeze

1) Can you tell us about the major highlights in your company during 2022?
We are continuously releasing new content to PAYDAY2 and seeing the appreciation from our community of that is always great.
But specifically this year it has been about getting some absolutely amazing new team members onboard who strengthen our game and publishing team both now and for the future.

Our release of Starbreeze Nebula, our own community hub, is an important foundation for our growth and community relationship ahead.

Later this year we will see our mobile game, developed together with our partner PopReach and based on PAYDAY 2, reaching soft-launch state and being tested on some markets before the final global release. Date for global release will be communicated when the date is set.

2) What will be your main focus in the next-coming 12 months? Where do you see your best opportunities to grow?
Most focus next year is on PAYDAY 3, releasing the game next year will be an amazing opportunity to grow. We will release the game simultaneously on PC and consoles, compared to PAYDAY 2 that was released on PC only, enables us to reach an even greater market from the start.

But we will also be able to execute on our 3rd party publishing capabilities helping some smaller great games to market, to grow our PAYDAY franchise and of course to have our next project after PAYDAY 3 in progress.

3) The gaming business is highly competitive. What competitive advantage in your product offering will make your company a winner long-term?
The expertise we have in games as a service where we create new updates and content for a long time after release is something that is unique on the market. As a concept it is easy to grasp but to actually execute on it and make it work takes experience that we have plenty off. Games as a service is not an exact recipe on exactly how to do it but rather a philosophy around serving customers over a long product life time meaning that a lot of things will change in the market during the period and the exact offerings and services needs to change over time.

4) Consumers will have much softer pockets in a mid-term perspective due to the current aggressive cost inflation. How will this affect your business?
We are undoubtedly heading into a very unclear and quite risky period of time. Historically though, games have had a great performance even during financial crisis periods, it is one of those entertainment areas where you get a lot of bang for the bucks so to say so people keep spending on it even though life is harder.

If that will be the case this time around as well can of course be debated and sooner or later, we will learn. However, we have a great position coming to market on a relatively measured lower price point than the most expensive AAA-game but then create a longer relationship and additional sales over time with a lot of value added to the product.

5) Will the (PC/Console) gaming industry for premium games differ from the film industry in the future? Meaning only blockbuster IPs and indies will be released with a premium business model and the rest will be released on a subscription platform?
I would argue that we have been better on offering various ways of purchasing and consuming games than film industry or music managed with their products over the years. While subscription is a great value add for customers, I don't believe we will fall into the trap of only offering games and content through subscription, it is a great complement but it risks to set a spending cap for consumers if being the only viable option. But sure, we will see more price differentiation and ways of distributing games in the future.



Christina Seelye, CEO
Zordix

1) Can you tell us about the major highlights in your company during 2022?
Zordix has transformed from being a group of studios to a fully integrated creator, developer, and publisher in the global Gaming Industry. Zordix just announced God of Rock, Afterimage, Teslagrad 2, and we are launching Soulstice today (2022-09-20)! – one of our biggest launches this year on both PC and Consoles. We have an established roadmap of 11 of our own IP games in development that currently goes through 2025.

2) What will be your main focus in the next coming 12 months? Where do you see your best opportunities to grow?
We have a lot in development so the next 12 months will be continuing the integration process already started and making sure we are executing against our very strong roadmap for 2023 and beyond. We also see growth opportunities in expanding further into transmedia with the Zordix IP catalogue. This will allow us to connect stronger with our player community across multiple revenue and engagement channels and further capitalize on our strong and growing roadmap of games.

3) The gaming business is highly competitive. What competitive advantage in your product offering will make your company a winner long-term?
Since the transformative year in 2021, Zordix now controls the whole value chain of video game creation, development, publishing, and lifecycle management. Our incredible global infrastructure allows us to launch games into multiple revenue channels and territories and platforms. The physical sales expertise translates very well to leverage transmedia opportunities such as merchandise and collector's editions Our ability to launch and scale new games is key to our success. We now have over 35 of our own-developed titles in our active portfolio, and we are confident that these will continue to grow and contribute to Zordix's success in the years to come.

4) Consumers will have much softer pockets in a mid-term perspective due to the current aggressive cost inflation. How will this affect your business?
It is difficult to speculate on how inflation, energy crisis and the invasion of Ukraine will affect us as a society at large in the short and long term. During the pandemic, when consumers were forced to stay at home, we did see a spike in the gaming industry and the amount of time spent on games. The gaming industry has a competitive advantage since that gaming is a cost-efficient entertainment compared to other leisure activities such as travel, going to the movies or physical experiences. Zordix is creating varied cost points of entry for our games, so we can offer our fans many ways to engage with a game from subscription services, to premium pricing, and free-to-play. If consumers stay more at home and travel less, there is an opportunity for the gaming PC/Console industry to grow – if this happens, we will have to wait and see. Our focus is to keep providing a world-class gaming experience regardless of macroeconomic circumstances.

5) Will the (PC/Console) gaming industry for premium games differ from the film industry in the future? Meaning only blockbuster IPs and indies will be released with a premium business model and the rest will be released on a subscription platform?
We see the trends of free-to-play and games as a service, and this is of course a big part of our business model. We love offering gamers varying cost points of entry for our games. That said, we still see a strong trend in buying and owning the physical merchandise and collector's edition of the IPs that gamers love. This speaks a lot towards our investment in transmedia geared for our fantastic fanbase which wants to own and collect our games as well as the merchandise we are offering.

Why invest in Gaming

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



Increased demand for free time entertainment

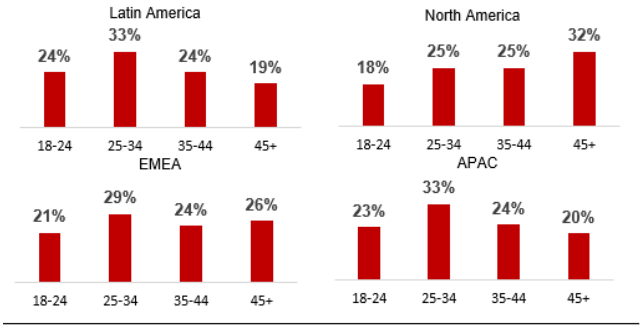
Global living standards are improving steadily.
For the gaming industry this leads to the following:

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

Gamers come of age

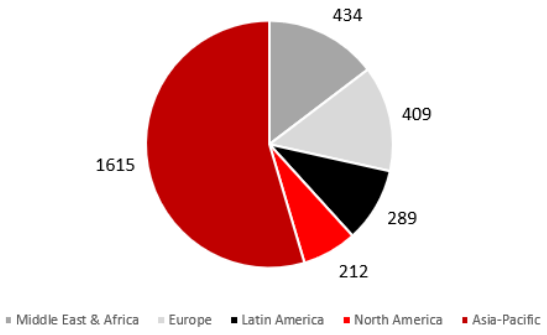
Demographic shift increases the average age of gamers. Popularity for games grew large during the 80s and 90s; these are now in their mid-thirties with a lifetime peak of spending power. We believe that the adult population that today sees games as a normal part of their leisure time, will also do so when they come close to retirement. The "gaming" generation also passes on their interest to their children, which will lead to even more adults playing games in the future.

Age per region



Source: Google Insights report

2021 Global Number of Players (million)



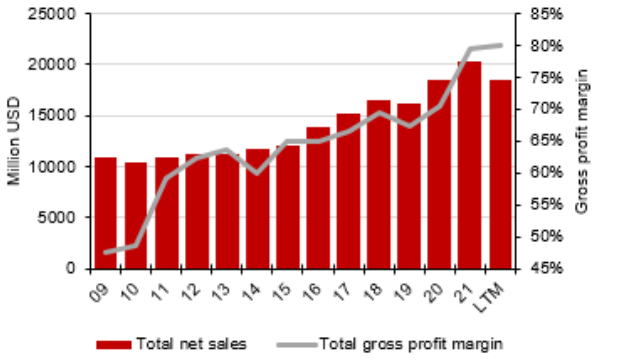
Source: Google gaming report "Beyond 2021"

There are now around 3 billion gamers worldwide. Approximately 54% of all gamers comes from the Asia Pacific region of the world.

Digitalization lower cost of distribution

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

Aggregated net sales and gross profit of large game developers*

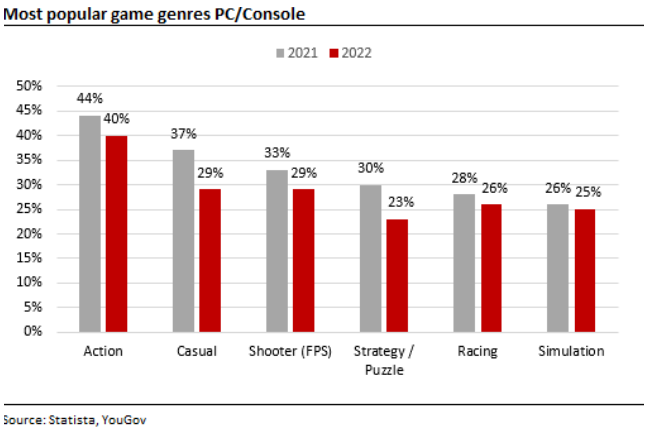


Source: Macrotrends & Redeye Research

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

Industry description

The gaming industry consists of several different game genres for all kinds of players. We describe the different categories and provide game examples. In this section, we also look closer at the industry value chain that the ongoing digitalization is changing dramatically. Originally it has consisted of developers, publishers, distributors, retailers, and consumers. Another important aspect is how the revenues are generated, where different revenue models are applied. The "premium business model" is the traditional form, were consumers buy full games to play. But during the last years subscription-based has become the new trend.



Source: Statista, YouGov

Game Genres

Shooter/FPS

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

Examples: **Call of Duty, Battlefield, Halo, and Counter Strike: Global Offensive.**

Action/Adventure

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

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

RPG (Role Playing Game)

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

Examples: **The Witcher, Final Fantasy, Skyrim, and 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, and New World.**

Strategy

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

Examples: **Clash of Clans, League of Legends, DOTA, Starcraft, and Crusader Kings III.**

Simulation:

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

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

Puzzle:

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

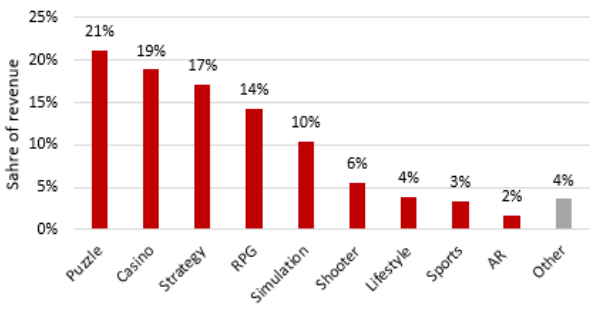
Examples: **Tetris, Candy Crush Saga, and Unravel.**

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

Mobile Game Genres

On the mobile games market, the highest-grossing genres differ a lot compared to PC and console. Some of the most popular games are two or more genres combined.

Top Mobile Genres 2021 (US)



Source: GameRefinery

For example, "Candy Crash Saga" one of the highest-grossing mobile game of all time is a casual puzzle game in a sub-genre called "Match-3". Despite that this genre attracts casual gamers the userbase is often highly loyal. This is one of the most important reasons why both Rovio and G5 Entertainment have entered the Match-3 market.

The top-grossing genres on mobile are puzzle (Match-3), casino, strategy, and RPG games.

Golden Game Franchises

The most commercially famous collector of Game IPs (Intellectual Property) in the Nordics is perhaps Lars Wingefors. He truly values the importance of a strong IP portfolio. However, if we look at the top-grossing game franchises of all time, our list is dominated primary by IPs created in Japan and China. Only Activision-Blizzard manage to win two of the spots on the Top-10 list with Call of Duty and Swedish-created Candy Crush. And this year we estimate EA's FIFA game franchise has managed to take a position on our top 10.

We have decided to exclude estimated merchandise sales from our Top-10 list. Both Pac-Man (Bandai Namco) and Space Invaders (Square-Enix) are therefore excluded from our list.

All Time Top Grossing IPs (USD)

Franchise/ IP	Owner	Revenue*
Mario	Nintendo	27 billion
Pokémon	Nintendo	23 billion
League of Legends	Tencent	22 billion
Call of Duty	Activision-Blizzard	21 billion
Dungeon Fighter	Nexon	15 billion
Candy Crush	Activision-Blizzard	14 billion
Crossfire	Smilegate	13 billion
FIFA	EA	12 billion
Street Fighter	Capcom	12 billion
Final Fantasy	Square-Enix	11 billion

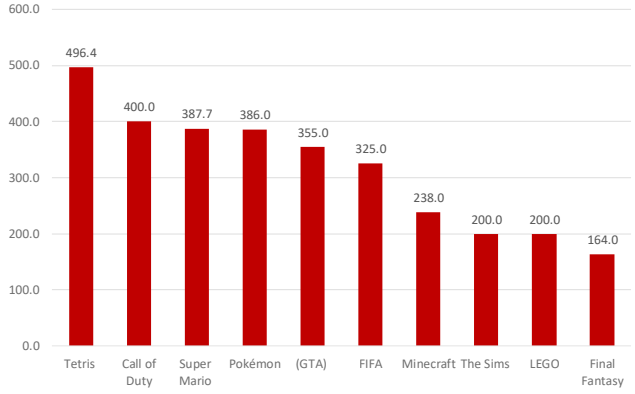
Source: TitleMax, Forbes * Revenue from estimated game sales

The two most valuable IPs in the gaming industry are owned and partly owned by Nintendo. Pokémon is on top of the list with a wide margin (USD 100 billion) if merchandise sales are included. Nintendo owns 32% of the Pokémon Company. Pokémon is also the highest-grossing media franchise of all time.

League of Legends, Dungeon Fighter, and Crossfire are currently the most profitable game franchises on PC with their stronghold in China. All these games have generated over USD 1 billion yearly for some time now.

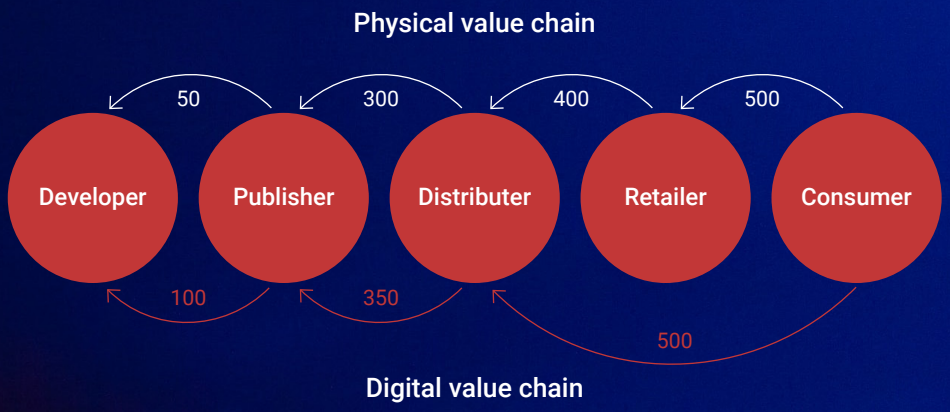
In the diagram below we show the best-selling game series of all time per units sold. This means only games with a premium business model is shown.

Best-selling video game franchises as of December 2021 (million units)



Source: Statista

Industry value chain



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

Developers

Developers can be divided into three different categories.

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

Second-party developers are game developers that are connected to a platform owner in making exclusive content. Unlike a first-party developer, they can be an independently owned studio. Most of these developers has been acquired by the exclusive platform owner the last ten years or made the decision to become independent (third-party).

Third-party developers are a platform-independent developers and often also a publisher as well. EA, Ubisoft, and also Remedy are 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

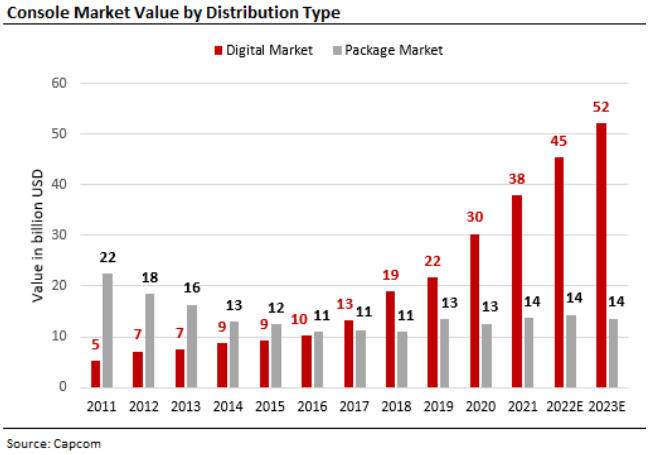
This means higher revenues for publishers and in some cases developers. Distributors such as Apple and Google are minimizing risk and maximizing profits due to digital distribution.

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 own digital platforms.

Publishers

A game publisher publishes 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.



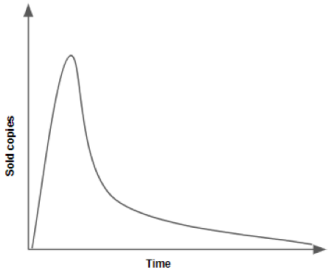
Source: Capcom

In 2009 roughly 80% of console game sales in the USA were physical. Today only 20% is physical. PC and Mobile is almost 100% digital which means roughly 6% of the total market is physical game sales. The physical market is expected to exist on consoles for at least 10 more years but should be considered a niche market. As shown in the diagram the market for physical games has shown a non-existing growth since 2019.

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

Full game

Traditional model where the customer pays for the whole game up front. Most often about 60% of the lifetime value comes during the first month's post-release.

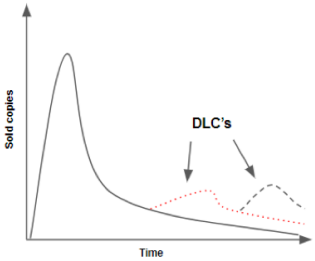


Examples from our Universe:
Payday 2, Valheim, Satisfactory, and Borderlands 3.



Extra content

Often called DLC (Downloadable Content). DLCs consists of an extended storyline, new game areas, or objects which are distributed digitally by the game's official publisher.



Examples from our Universe:
Payday 2, Valheim, Satisfactory, and Borderlands 3.



Freemium/F2P

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

Examples from our Universe:
Sherlock, NERF: Superblast, and Albion Online.



Subscription-based

Subscription-based is a relatively 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. In 2018 Microsoft's two biggest exclusive titles were released on "Xbox Game Pass" the very first day, which was a "game-changer" for the entire industry.

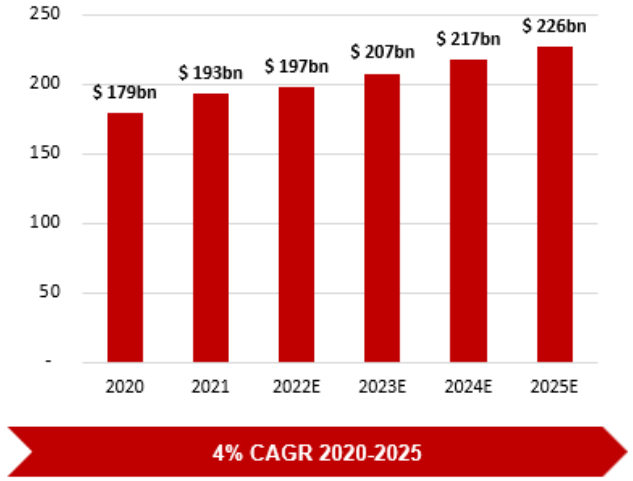




The market

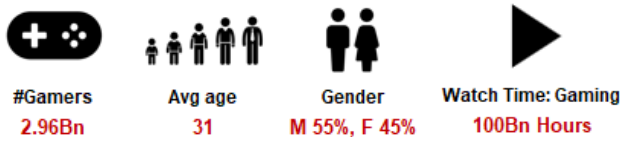
The gaming industry is the world's largest entertainment business, trumping all others. The global gaming market is expected to have a value of roughly USD 226 billion in 2025 and is expected to grow annually by about 4% (CAGR) until 2025.

Global Gaming Market in USD bn



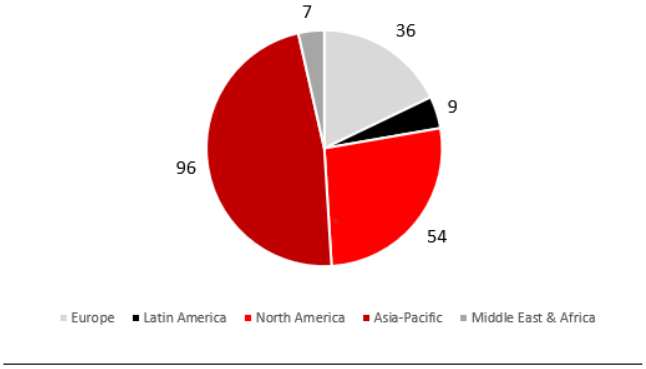
Source: Newzoo

Globally there are about 3 billion gamers, i.e., who play at least one time a month. The average gamer is 31 years old and the gender split is relatively even, with a slight predominance of males. Gamers also spent in 2020, about 100 billion aggregated hours watching game related content.



In 2022 the Asia-Pacific territories will generate around USD 96,3 billion. China stands for most of the revenues.

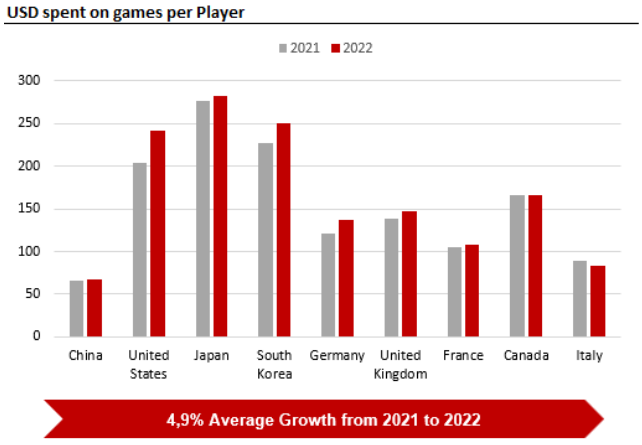
2022 Global Games Market (billion USD)



Source: Newzoo

Asia-Pacific has a huge population but the spending per capita and per gamer are still much lower than in the West. In this diagram, we show the top spending countries per internet user.

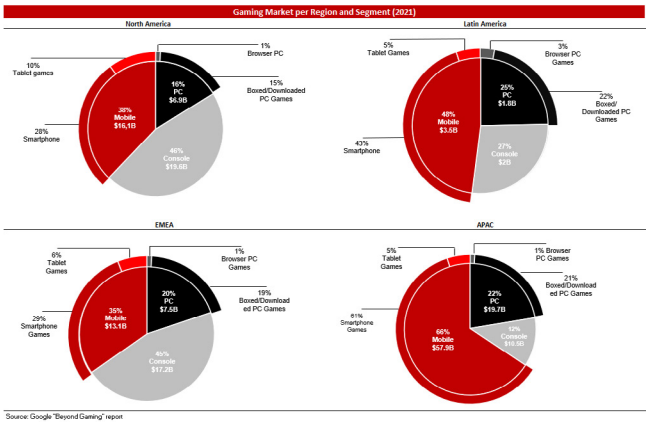
USD spent on games per Player



Source: Newzoo, Redeye Research

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

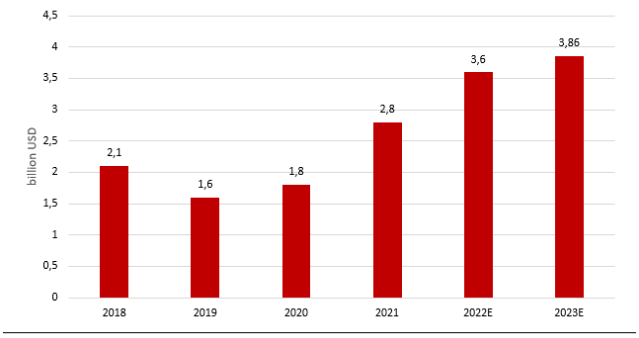
The boxed console and PC games stand for a minority of the game's sales in China and South Korea. The boxed industry is almost non-existing, and it was forbidden to sell consoles until mid-2015.



Mobile gaming has in the last decade become a staple of the gaming world and has become the biggest segment of the whole market. In developed regions of the world, mobile stand for around 40-50 percent of the market while console and PC stand for the rest. However, in developing regions of the world there is a considerable advantage in the mobile segment, with it representing almost 67% percent of the market in APAC and 48% percent in Latin America.

An explanation for this is the accessibility of mobile gaming and how easy it is to take our phones from our pockets and start gaming. There is also the fact that it is often cheaper to game on a phone where you don't have to buy a console or PC which often is strictly for gaming and an expensive purchase.

Free-to-play console game market revenue worldwide

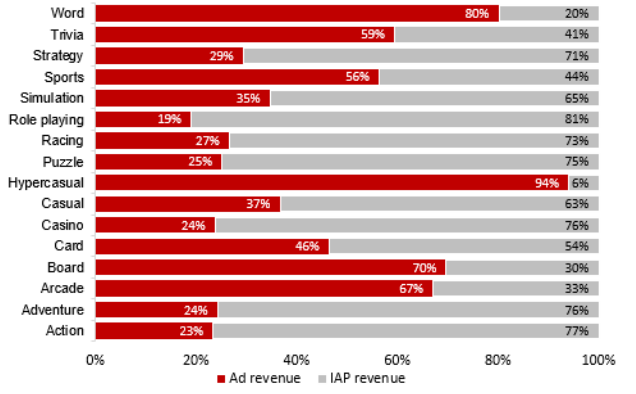


Source: SuperData Research

There is also a considerable difference in how the revenue stream works for console, pc, and mobile. For PC and console, you often purchase a game and that's that. We have however seen some change in the revenue streams with the popularity in free-to-play games which derive their income from IAP/IGP (In-app-purchase/in-game-purchase) or through monthly subscriptions.

Mobile has an almost pure free-to-play monetization strategy with most of the revenue coming from ads or IAP. The in-app purchase is often in the form of in-game currency, skins, or premium items. Monetization varies significantly depending on mobile game genres. For deeper and more immersive games genres like RPG, action, and adventure in-app purchases dominate, standing for almost 80 percent of revenues. In more light game genres like hypercasual, word, and board most of the revenues to game developers comes from ads.

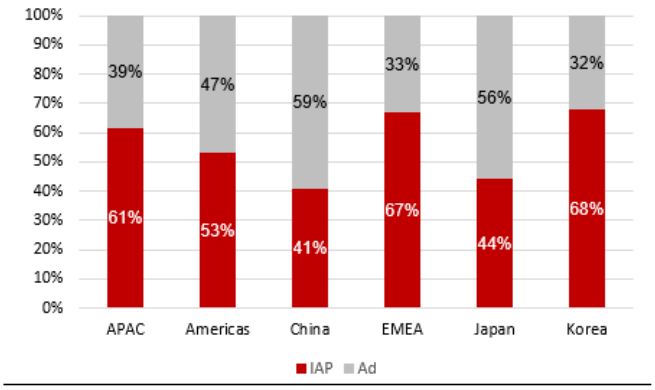
AD and IAP revenue share per Genre



Source: Unity Gaming Report 2022

There is however a regional difference in all game genres. China and Japan rely heavily on ad revenue, while Korea, APAC, and EMEA rely more on in-app purchases. In America, there is a 50/50 split between IAP and ad revenues.

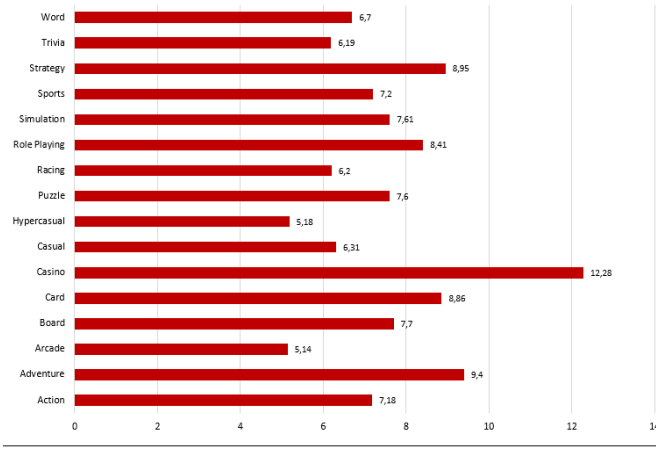
Ad vs. IAP by Region



Source: Unity Gaming Report 2022

While many mobile games are free-to-play with a combination of both ads and IAP, there are only a few actual players who spend money on in-app purchases. According to a study made in 2014 by Swrve, only about 2.2% of a game's player base spends money. However, Swrve also found that 10% of the 2.2% stood for around 46% of all the revenue. Per transaction, the average spending over all the genres is about 7,6 USD but it varies quite a lot between genres as you can see below.

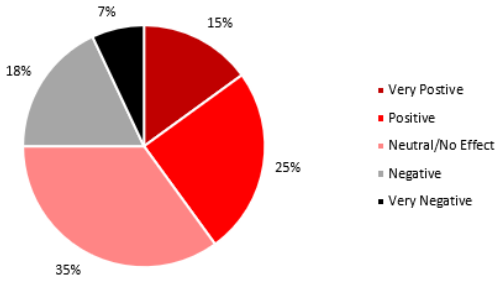
Spending per Transaction and Genre 2021 (USD)



Source: Unity Gaming Report

40% of mobile players have according to googles Mobile insight report reported that ads have a positive effect on their gameplay while 35% report that ads have no effect. This is interesting because the common belief is that in-game ads are intrusive. An overwhelming majority have at least a slight interest in the content of the ads seen, most also interact with ads to earn in-game incentives.

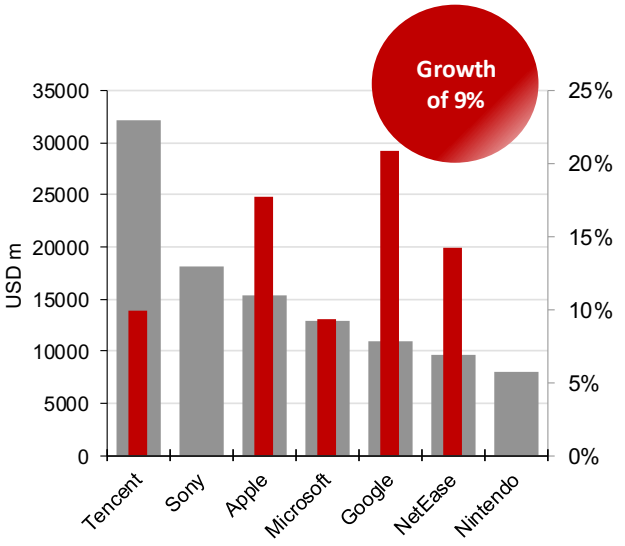
Effects of in-game ads



Sorce: Google "Mobile Insights Report"

The Big Players

Revenues are very concentrated at the top. USD 126 billion (107 in 2019) comes from the top 10. The global games market amounted to USD 193 billion which means 65% (60% in 2020) of total revenues come from the top 10. Tencent alone earned USD 32.2 billion (29.3 in 2020) in revenues, accounting for more than 17% of the entire games market, and was the world's number one public company by game revenues for the ninth year running.



Platform owners as a group once again were the winners in terms of growth, showing a 9% year-on-year growth in 2021. Despite a COVID-19-boosted sales boost, this group showed strong growth in 2021 as well. In 2020 console-owners had an extremely strong year, this year however mobile game platforms with Google and Apple as the brightest shining stars outpaced the group as a whole.

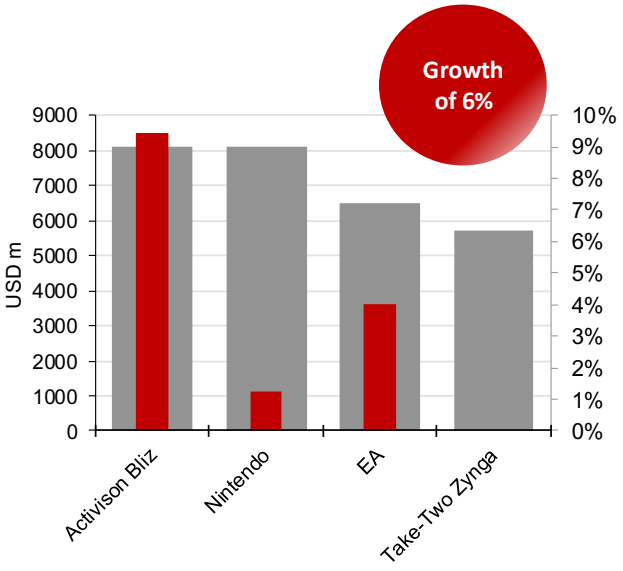
Since the beginning of 2019 Nintendo has outpaced its competitors in console sales. Everybody in this industry knows it is software that sells hardware. Nintendo has built up an impressive exclusive game library and support "mobile" gaming unlike its competitors. The hybrid console has also become an essential platform for indie games. The growing third-party support has also been an important driver for success.

Console War - Units Sold (million)

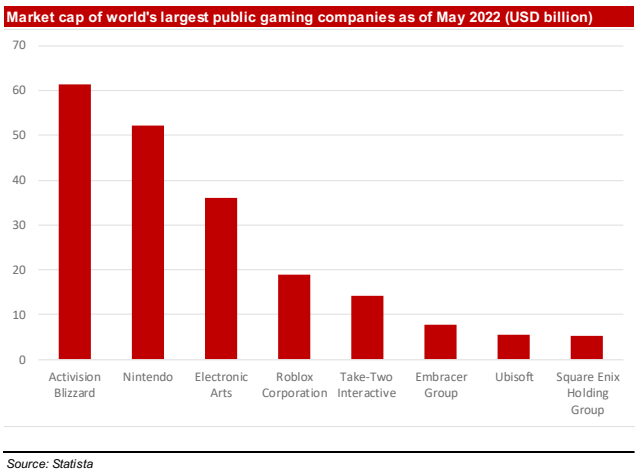
Platform	2021	2022-TD	Total
Xbox Series X/S	8,6	5,1	**16,96**
Playstation 5	12,6	5,7	**22,71**
Nintendo Switch	24,9	10,2	**112,1**

Source: VGChartz

The major game publishers as a group once again had a hard time competing with the platform owners in terms of growth with a combined growth of 6% (amongst the four biggest companies). The major contributor was Activision Blizzard in 2021 as well.



In the chart below we show some of the biggest listed game publishers in the world. Activision Blizzard is expected to be acquired by Microsoft before the summer of 2023, and rumors tell us that EA likely is the next acquisition target. Embracer Group is still a relatively small player in this group of companies.



Source: Statista

Valuation per segment

On an overall level, the valuation multiples in the gaming sector range from 1-8x EV/S and 3-20x EV/EBIT 2023E depending on growth outlook and profitability. Our company sample is based on 31 companies sorted into three categories; Premium, Mobile/Free to play, and Nordic listed companies.



Premium Games

The average valuation for Premium games companies is highest in the group at c. 4x EV/S and 14x EV/EBIT. However, the span is wide depending on size and where the companies' gaming portfolios stand in their development phase. The valuation has come down around 10-20% compared to November last year, despite a continued positive growth outlook for both topline and profit. The aggregated group is expected to grow annually by 10% in the coming three years with an average EBIT margin of 27%. Many companies in this segment group are active in M&A, so this affects the growth rates to some degree.

Valuation Premium Gaming segment

Company	EV, SEKm	EV/Sales 2023E	EV/EBIT 2023E	Sales CAGR 22-24E	EBIT-margin 22-24E
Activision Blizzard	556,911	5.5	13.8	13%	38%
Bandai Namco	141,850	1.9	13.5	5%	14%
CD Projekt	17,237	8.0	20.7	-4%	36%
Devolver Digital, Inc.	3,420	2.1	12.1	13%	19%
Electronic Arts	366,362	4.0	12.4	7%	33%
Embracer Group	101,068	2.3	8.5	12%	27%
Frontier Developments Plc	5,948	3.0	17.4	17%	17%
Games Workshop Group Pl	29,607	5.3	13.4	8%	40%
Keywords Studios plc	21,060	2.8	18.7	11%	15%
Netease	523,227	3.1	13.8	11%	22%
Nintendo	385,211	3.1	8.9	-2%	34%
Paradox Interactive	17,584	7.8	20.0	14%	40%
Remedy Entertainment	2,625	5.7	n.m.	22%	8%
Take-Two Interactive	234,657	2.8	12.0	20%	22%
Team17 Group PLC	6,161	3.6	11.5	8%	32%
tinyBuild Inc.	2,431	3.3	8.5	9%	38%
Ubisoft Entertainment	54,874	1.9	10.8	11%	17%
Average		**3.9**	**13.5**	**10%**	**27%**

Source: Factset

Mobile and Free to play

The companies in our Mobile and Free-to-play list have an almost exclusive focus on mobile or free-to-play while the exposure to premium games is limited. On an aggregated level this group has a lower valuation than Premium gaming companies. The group is valued, based on 2022 estimates, at 3x EV/S and 9x EBIT. The aggregated group is expected to grow annually by 15% in 2022-24E with an average EBIT margin of 15%. While growth outlook remains strong, the average valuation has dropped compared to last year when it was closer to the level of the Premium games segment.

Valuation Mobile/Free-to-Play segment

Company	EV, SEKm	EV/Sales 2023E	EV/EBIT 2023E	Sales CAGR 22-24E	EBIT-margin 22-24E
Com2us Corporation	6,178	0.9	10.5	13%	7%
Enad Global 7	1,052	0.5	3.3	-1%	16%
G5 Entertainment	1,268	0.8	4.6	4%	16%
MTG	8,607	1.4	11.1	8%	12%
Playtika Holding	60,713	2.1	10.4	6%	20%
Rovio Entertainment	3,210	0.9	6.8	2%	13%
Roblox Corp	269,520	7.6	n.m.	13%	8%
Stillfront Group	15,575	2.0	6.7	8%	30%
Ten Square Games	1,538	1.3	7.3	-1%	19%
Tencent Holdings	3,939,028	4.0	15.5	13%	26%
Unity Software	133,572	7.5	n.m.	27%	1%
Average		**2.6**	**8.5**	**8%**	**15%**

Source: Factset

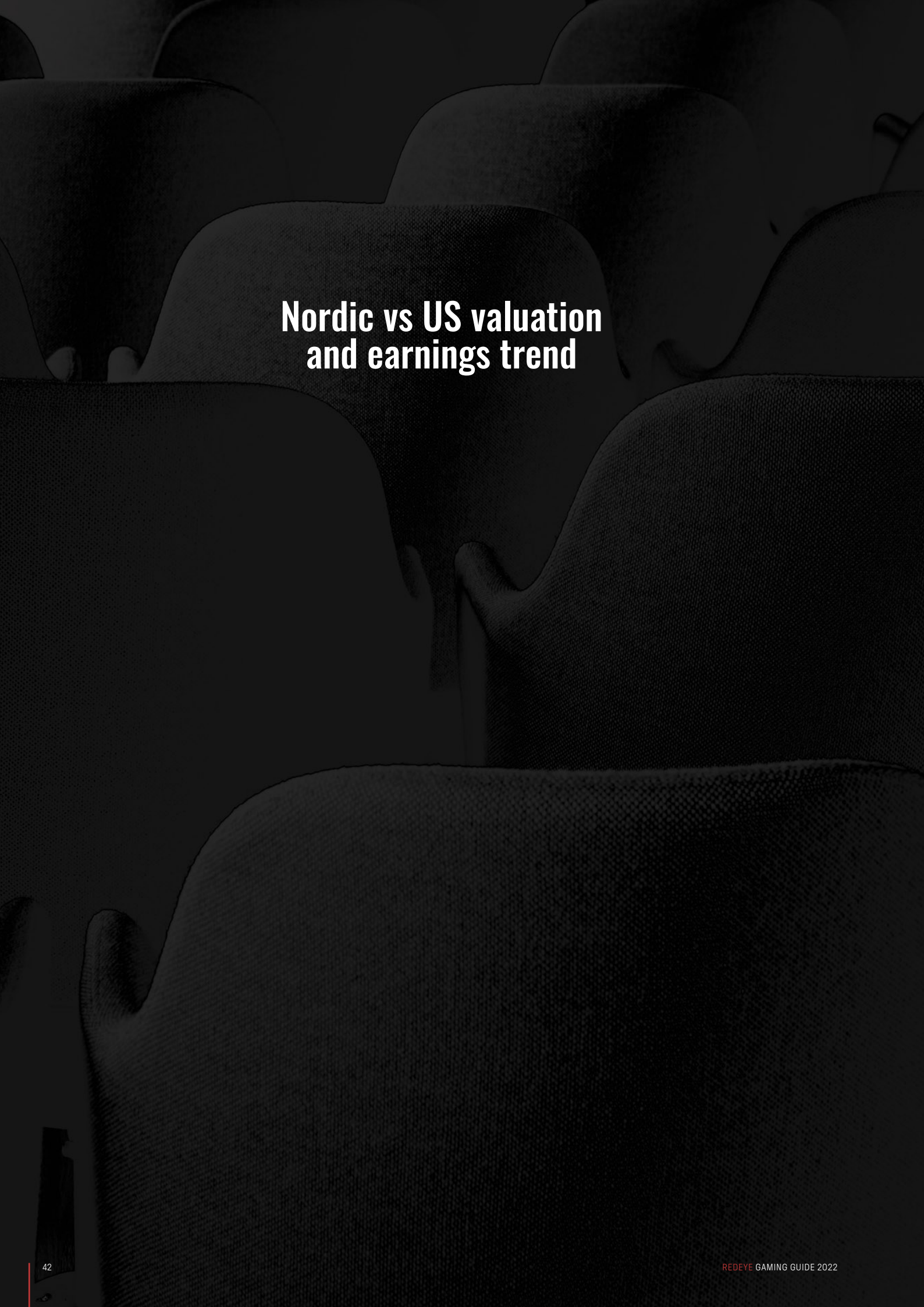
Nordic companies

We have also built a separate group of Nordic listed companies which consists of both mobile/free to play focused companies as well as premium games focused companies. The average valuation for the Nordic sector is 2x EV/S and 8x EV/EBIT which is lower than the average for the two other larger groups. While growth outlook is similar to the global average, we believe the lower valuation could be partly explained by a higher focus on M&A-driven growth.

Valuation Nordic Gaming segment

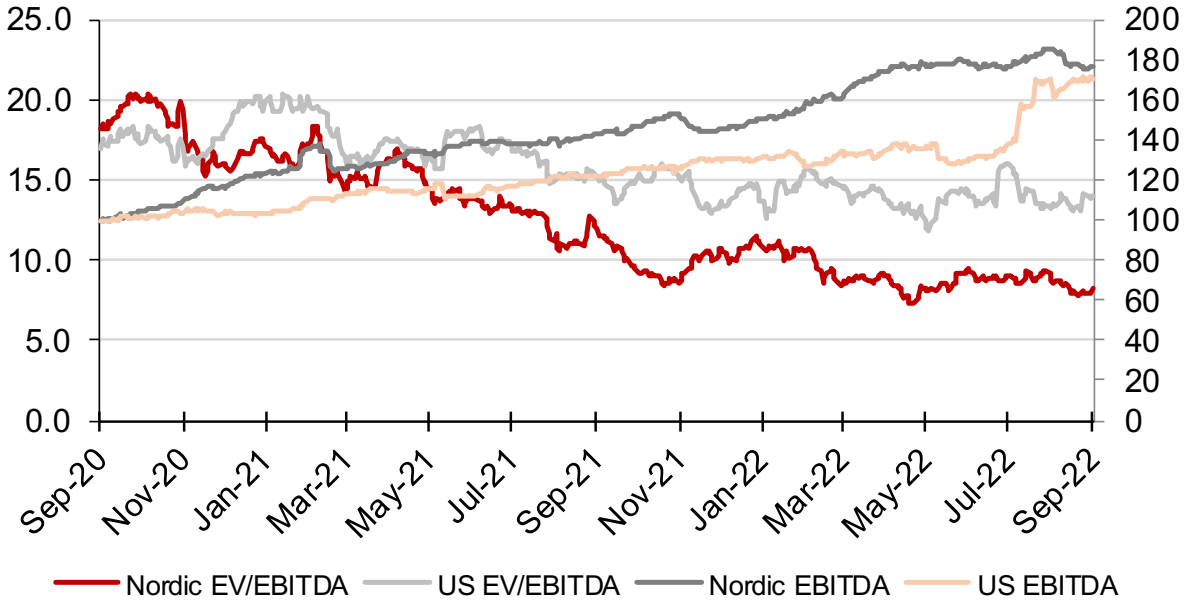
Company	EV, SEKm	EV/Sales 2023E	EV/EBIT 2023E	Sales CAGR 22-24E	EBIT-margin 22-24E
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Enad Global 7	1,052	0.5	3.3	-1%	16%
G5 Entertainment	1,268	0.8	4.6	4%	16%
Media and Games Invest	6,375	1.8	8.1	12%	22%
MTG	8,607	1.4	11.1	8%	12%
Paradox Interactive	17,584	7.8	20.0	14%	40%
Remedy Entertainment	2,625	5.7	n.m.	22%	8%
Rovio Entertainment	3,210	0.9	6.8	2%	13%
Stillfront Group	15,575	2.0	6.7	8%	30%
Thunderful Group	1,549	0.5	5.2	2%	8%
Zordix	590	0.4	3.9	17%	9%
Average		**2.2**	**7.8**	**9%**	**18%**

Source: Factset



Nordic vs US valuation and earnings trend

Nordic vs US Gaming: EBITDA and EV/EBITDA, NTM

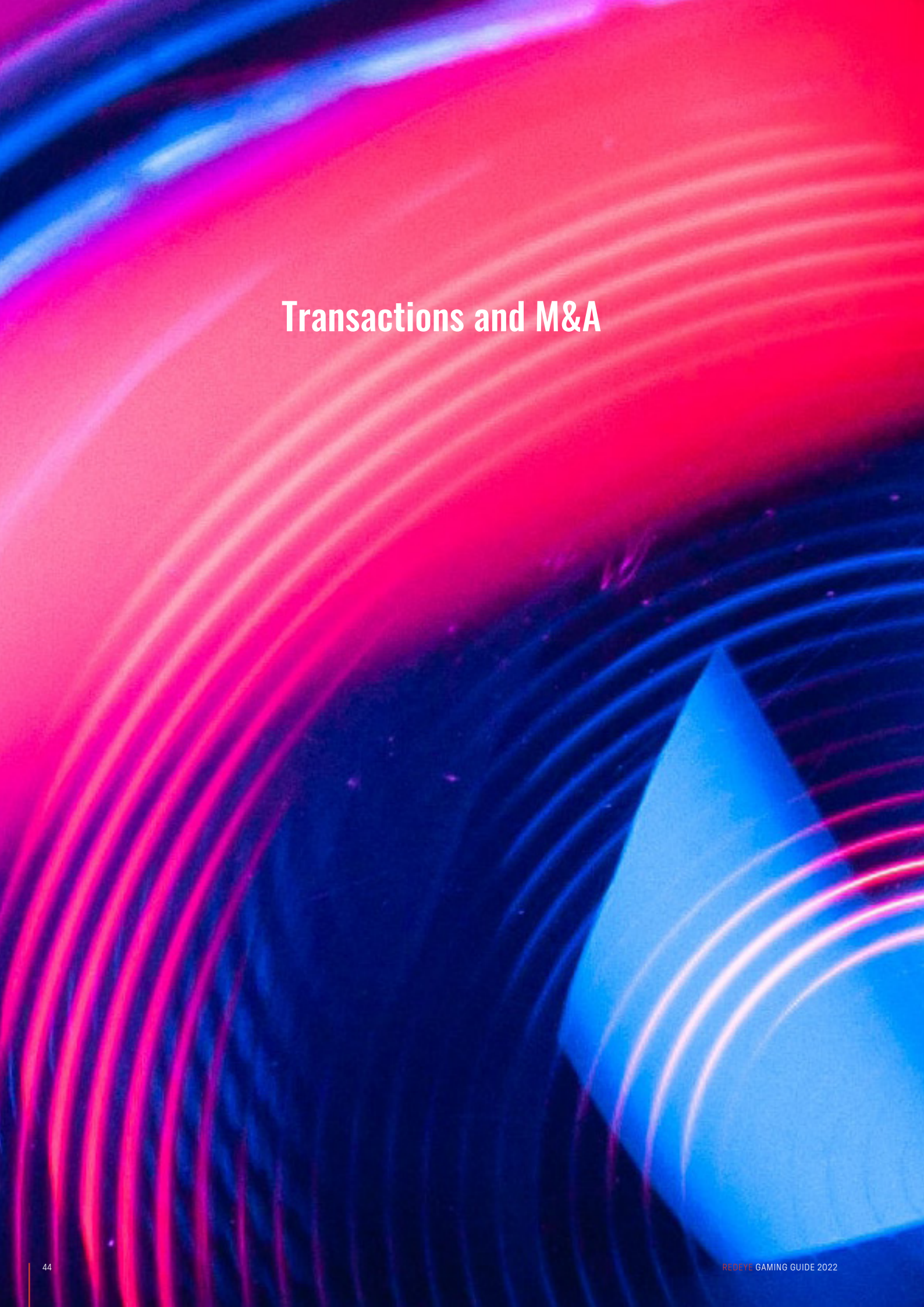


*Source: Factset, * Embracer, Stillfront, Paradox*

Comparing the valuation trend for the gaming sector over the last two years it has been gradually declining from a peak of around 20x EBITDA in late 2020 when demand was high for stay-at-home stocks owing to the covid-19 pandemic. The valuation level has flattened out since late 2021 at around 12x EBITDA in average. However, while the valuation has been in negative trend, the earnings revision trends has remained positive with EBITDA estimates almost double the as high, albeit partly driven by M&A.

Looking at the valuation difference between Nordic gaming companies (Embracer, Stillfront and Paradox) compared to larger US peers (Activision, EA Games and Take Two) the difference is much lager today than in late 2020 as well. While the US sector trades at around 14-15x EBITDA the Nordic sector trades at c. 6-7x EBITDA. We believe this is mostly to the longer history of the US peers coupled with a higher dependence on M&A-driven growth for the Nordic companies.

Transactions and M&A

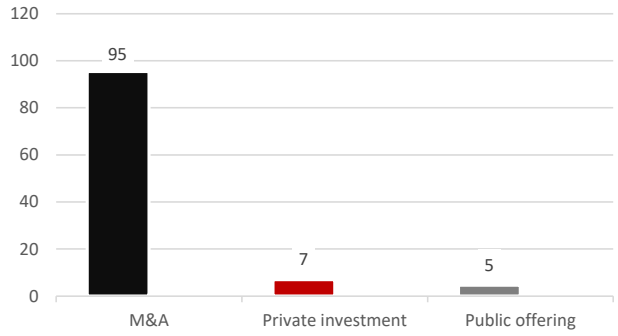


Transaction and M&A market H1'2022

2022 started in style and has been a major sector consolidation year. The total deal value in H1'22 reached more than USD 107 Bn across 635 deals in the sector. In perspective, the total global deal value in 2021 and 2020 reached USD 85.4 Bn and USD 32.7 Bn, respectively. Notable deals during the year have been Microsoft's acquisition of Activision (USD 69.0 Bn), Take-Two Interactive's acquired Zynga (USD 12.7 Bn), and Sony's acquisition of Bungie (USD 3.6 Bn). Commonly, all three major deals are to diversify its segments while expanding and controlling its catalog of IPs.

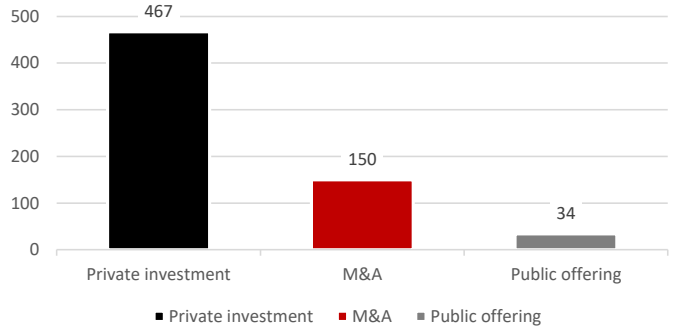
Naturally, M&A saw the highest transaction activity. The total deal value of the M&A consolidation reached USD ~95 Bn, followed by private investments (USD 7 Bn) and public offerings (USD 5 Bn).

Value of closed deals by transaction type - USD Billions



Source: DSP Research, Capital IQ, Redeye research

Number of closed transaction by type

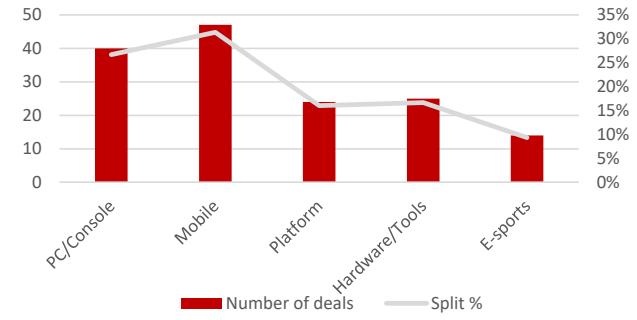


Source: DSP Research, Capital IQ, Redeye research

Due to the megadeals of Activision and Bungie, PC/Console was the largest segment in terms of deal size, with its USD 73 Bn contribution, followed by mobile and platform deals. Mobile saw the highest number of deals, where 47 were made during H1 22, driven by the large deal between Take two Interactive and Zynga. In 2021, mobile was the segment with the highest activity. It is interesting that PC/Console retakes the subsector with the highest activity.

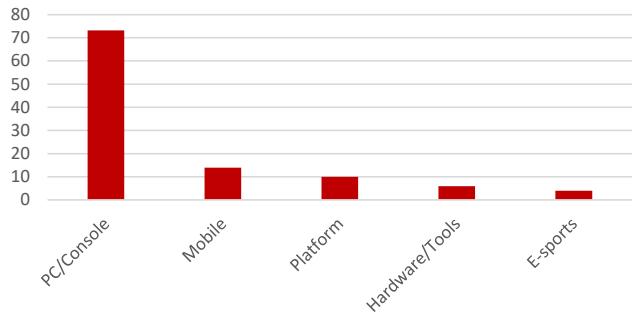
E-sport saw a clear uptick versus last year, where Savvy Gaming's investments into ESL and FaceIT are notable.

Number of Deals per segment H1'22 - USD Billions



Source: DSP Research, Capital IQ, Redeye research

Deal value per segment H1'22 - USD Billions

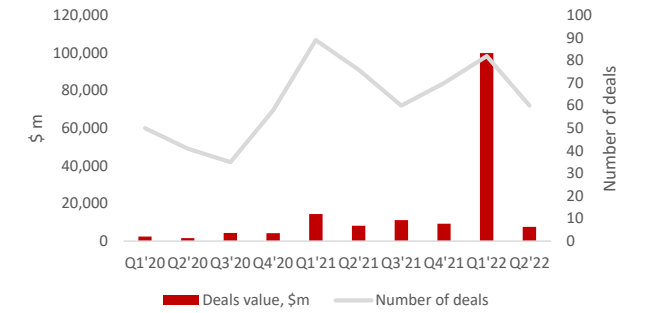


Source: DSP Research, Capital IQ, Redeye research

M&A Activity

The consolidation among the sector has surpassed all levels, driven by the recent valuation contraction, the importance of controlling its own IP, and diversifying its revenues. Between July 2021 and June 2022, 277 deals were Q1'22 saw the highest activity. The median paid EV/EBITDA multiple between July 2021 and June 2022 was 13.7x, while the median EV/S multiple was 3.5x in the same period.

M&A activity - USD Millions



Source: DSP Research, Capital IQ, Redeye research

Overview of the largest M&A deals in H1'2022

The three largest deals accounted for the clear majority of the deal value during the period, including Activision, Zynga, Bungie, and ESL. Compared to 2021, a few of the largest M&A deals was Zenimax (USD 7,500m), Moonton (USD 4,000m), and Glu Mobile (USD 2,100m). Illustrating this year's activity.

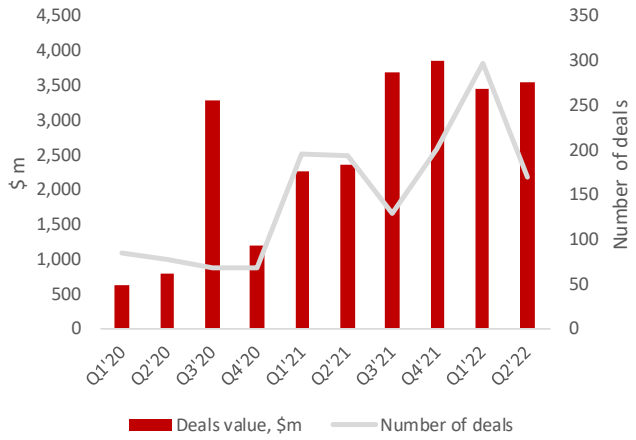
Largest M&As H1'22		
Target	Buyer	Deal Size*, $m
Activision	Microsoft	68,987
Zynga	Take Two Interactive	12,696
Bungie	Sony	3,600
ESL	Savvy Gaming group	1,050
Aspire Global	Neogames	475
Rekt	Infinite Reality	470
Black Shark	Tencent	470
Face IT	Savvy Gaming group	450
6W	Stillfront	300
Alictus	SciPay	300
Eidos / Crystal Dynamics	Embracer	300

Source: DSP Research, Capital IQ, Redeye research

Private placements

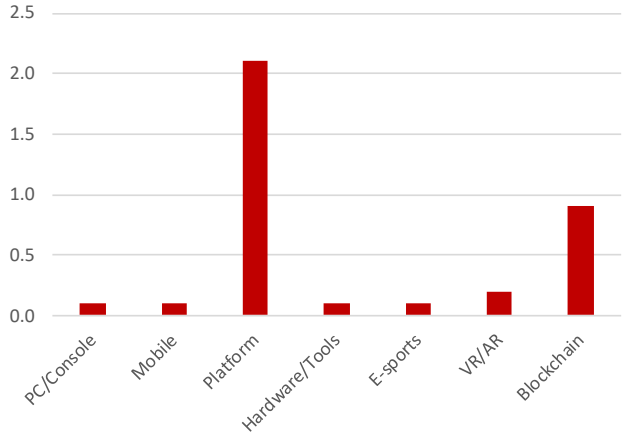
The total deal value of private placements reached USD 7.0 Bn, up 56% from last year. Blockchain and NFTs raised USD 2.3 Bn in H1'22. Several platform deals (58%) were the strongest subsector, followed by Blockchain placements (25%) and VR/AR placements (6%).

Private Placements activity - USD Millions



Source: DSP Research, Capital IQ, Redeye research

Private Placements - Deal value per segment - USD Billions

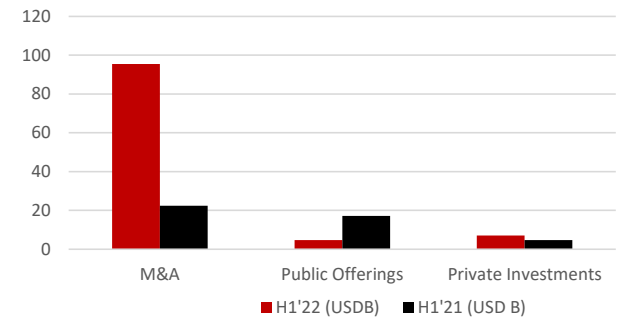


Source: DSP Research, Capital IQ, Redeye research

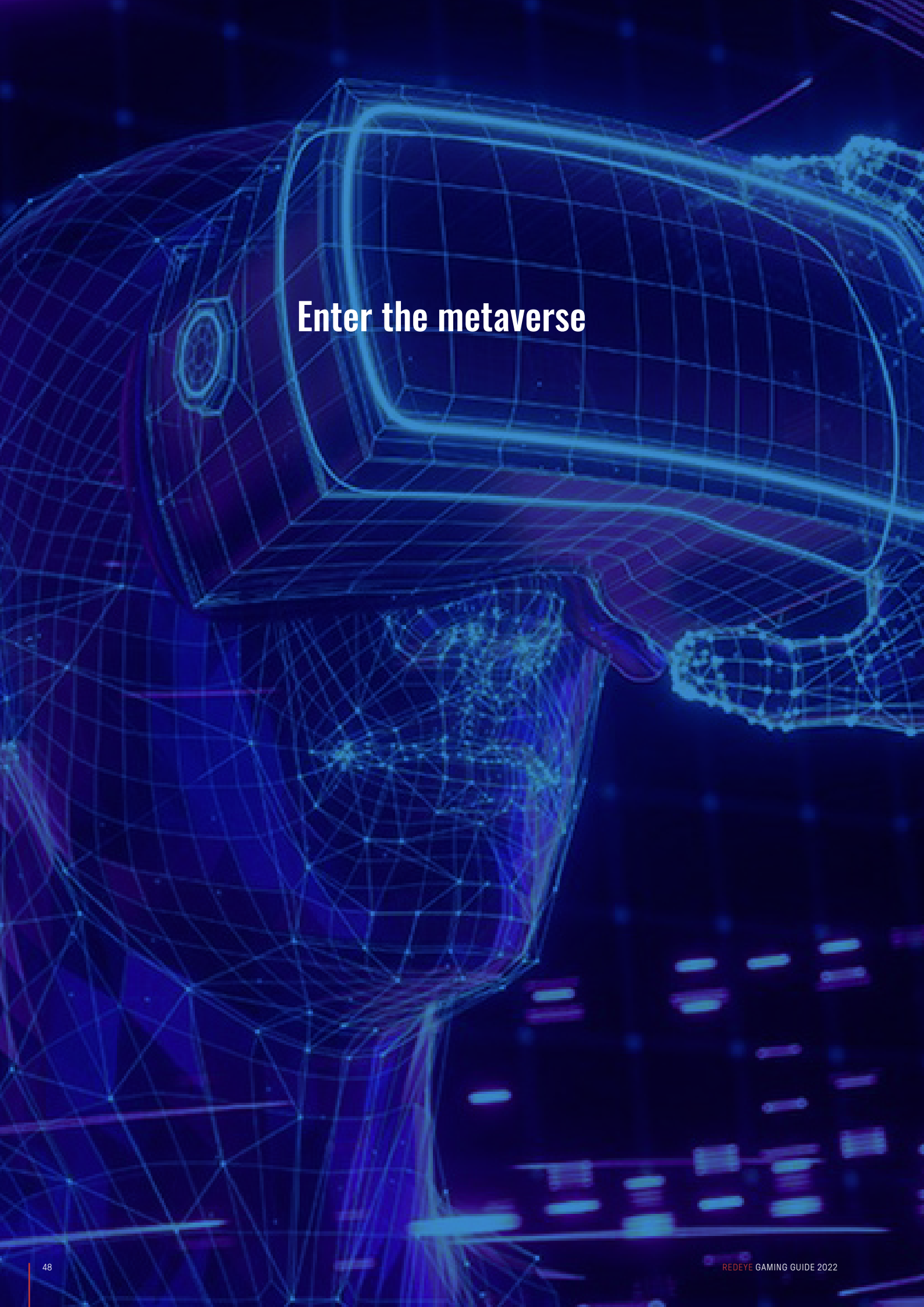
Comparing H1'2022 vs. H1'2021

Due to the several mega deals, the first half year in 2022 has outperformed 2021 dramatically in terms of deal value. The total deal value in 2022 has so far reached USD 107 Bn, up 142% versus the comparable period in 2021. Interestingly, M&A has seen the highest activity, and public offerings activity is down versus 2021. The valuation contraction for publicly traded companies has created a consolidation in the sector, something that is likely to proceed during the rest of the year.

H1'22 VS H1'21 - Transaction Value USD Billions



Source: DSP Research, Capital IQ, Redeye research



Enter the metaverse

Monetization beyond sponsorships

One of the major problems in esports has always been how to make money, that is how to monetize the audience. By relying heavily on sponsorships, the entire sector has made itself dependent on one primary source of revenue. Although brand deals have enabled the emergence of the field to some degree, almost all actors would be in trouble if sponsorships were to be halted. Consequently, organizations are increasingly looking into how they can diversify their revenue sources in order to safeguard future sales.

First of all, it is important to emphasize that advertising is highly unlikely to stop contributing to the esports industry anytime soon. The industry is growing rapidly, and it makes it possible for advertisers to target a niche customer base with strong buying power. As an example, "Team SoloMid", one of the world's largest esports teams, recently closed a USD 210 million deal over 10 years with the cryptocurrency exchange FTX regarding the naming rights for its organization. Following the agreement, Team SolMid, or TSM, was renamed TSM FTX.

Nevertheless, to diversify the sources of revenue, esports organizations are increasingly looking at direct-to-fan monetization. Direct-to-fan monetization can take many forms, including merchandise, loyalty programs, and education programs. Merchandise has been a common monetization strategy for quite some time, with both individual streamers and teams selling clothes and other memorabilia with their names and logos. This strategy is now being taken to the next level, with some esport teams doing collaborations with large fashion brands such as Puma.

Another way to monetize is through the introduction of loyalty programs. These programs build on a subscription-based model where viewers pay for unique content from their favorite teams and players. This strategy enables teams to generate more revenue, but it also increases engagement and enables better involvement with the audience. Another subscription based model that for example TSM has introduced is training programmes for its fans. For a recurring fee, the fans are able to practice on certain games using everything from entry level services such as an in-game training course to an elite academy where students are taught high level gameplay techniques.

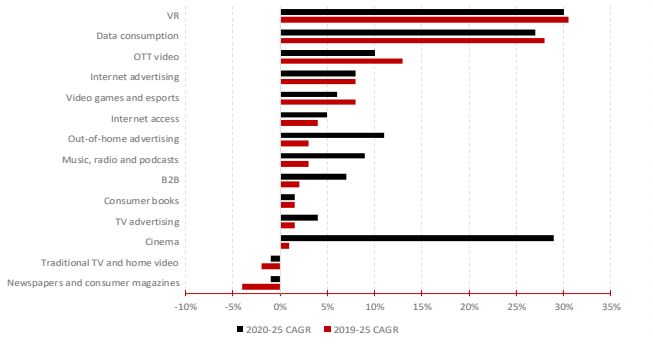
VR Market

According to Grand View Research, the VR/AR market should be worth USD 69.6bn in 2028, equivalent to a CAGR of 18 percent. PWC also shares this view, expecting the global VR market to amount to USD 6.9bn by 2025, or a CAGR of 30 percent. The uptake in the market stems primarily from smaller, lighter VR headsets that are standalone (no requirement for a PC) at a consumer-friendly price point, as well as an increase in high-quality content. Therefore, standalone headsets are easier to use, cheaper, and more giftable than previous generations of VR devices.

Furthermore, the 5G development brings with it high reliability and bandwidth. More important still, low latency can offer a very interesting application for VR hardware, as games could be streamed to a screen without the need for expensive and bulky hardware, driving down the cost and weight of VR headsets while simultaneously increasing the game performances. This would enable the games to be played on a high-performance PC or in a data center. However, the software would need to follow suit, as a lack of content would hinder hardware sales growth. Both markets would need to grow in parallel, creating a positive spiral.

An additional key development will be haptics (use of touch sensation). Haptics enable users to touch things in virtual environments and receive instant feedback, enhancing the user experience. Haptics could be applied in various areas and thus widen the user base. Apart from entertainment, VR and AR could bring major business benefits thanks to improved training and innovation, reduced risk, and faster go-to-market implementation.

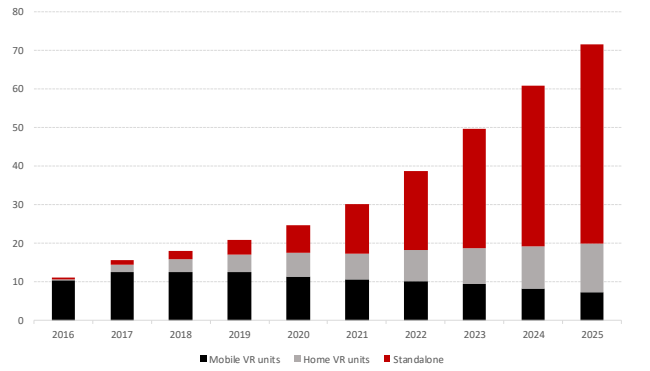
Global compound annual growth rate by segment



Source: PwC Global Entertainment & Media Outlook 2021-2025

The largest growth is expected from the standalone headset market, which PwC forecasts will triple by 2025. It expects the installed base of VR headsets to reach 70 million in 2025, of which ~50 million headsets will be standalone and ~12 million to be home VR.

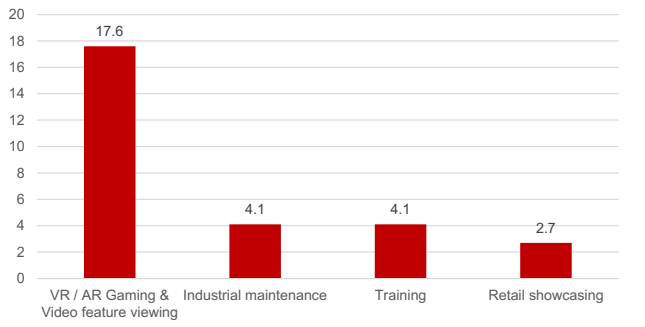
Total VR unit installed base by category, 2016-2025 (millions)



Source: PwC Global Entertainment & Media Outlook 2021-2025

In addition, investments in the segment will grow exponentially in the coming years, according to IDC, which expects total investments in the VR/AR segment to reach USD 28.5bn in 2024. Gaming and video feature viewing are leading this, followed by industrial maintenance and education.

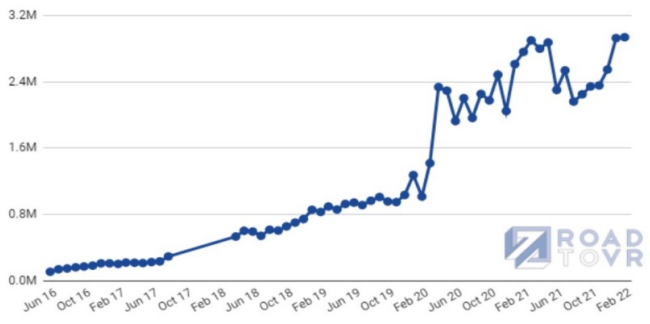
Investment in AR/VR Technology in 2024, globally - USD Billions



Soruce: IDC, Redeye research

The monthly connected VR headset on Steam illustrates the market tailwind. The strong holiday season in 2021 persisted as a strong start for 2022. We believe this trend will continue, driven by a combination of hardware and platform owners' needs for software content.

Monthly connected headsets on Steam



Soruce: Valve, Road to VR, Redeye research

What are virtual, mixed, and augmented reality?

Virtual reality (VR) uses computer technology to create a simulated environment. VR places the user inside an experience rather than viewing a screen in front of them, allowing a high level of immersion and the ability to interact with a 3D world through the use of a head-mounted display (HMD) or headset.

Mixed reality (MR) combines the real and digital worlds. MR glasses commonly have virtual screens inside the glasses in the form of VR and cameras outside the glasses, with the software enabling a mix of virtual and real graphics to create the illusion that the virtual content exists in real physical places.

Augmented reality (AR) is an interactive 3D experience that overlays and combines computer-generated elements on top of a view of the real world and real objects in real-time via AR glasses. Both VR and AR are a form of extended reality (XR).

Major global players are entering the universe

Many companies would like to capitalize on the growing VR/MR/AR market, which many expect will be the next big computational platform. The space is expected to grow at an explosive pace; all the major tech giants are entering the space in the next few years. Meta is currently the clear market leader in VR headsets. However, other major players, such as Sony, Apple, Microsoft, Google, Samsung Huawei, Valve, HTC, and Snap, are all trying to join.

Metaverse definition

According to Mark Zuckerberg, the metaverse is a virtual environment where you can be present with people in digital spaces. There are possibilities to access the metaverse from apps on phones and PCs to immersive virtual and augmented reality devices. The defining quality for the metaverse is 'presence'—the feeling that you are there together with another person or in another place. Creation, avatars, and digital objects will be central to how we express ourselves in the metaverse. The metaverse will lead to entirely new experiences and economic opportunities.

Matthew Ball, theorist and venture capitalist, shares this view and considers the metaverse to be a massively scaled and interoperable network of real-time rendered 3D virtual worlds that can be experienced synchronously and persistently by an effectively unlimited number of users with an individual sense of presence, such as identity, history, entitlements, objects, communications, and payments.

Meta

Meta (Facebook) has its sights set on dominating the VR and AR space. It acquired Oculus in 2014 and has now accelerated investments into the segment. As of 2021, Meta's VR/AR operating units were reporting revenues of USD 1.1bn, up roughly 100 percent compared to 2020. Moreover, Meta invested approximately USD 10bn dollars in the market and will hire more than 10,000 employees in Europe alone in the VR, MR, and AR market to maintain its market-leading position. That represents roughly 20 percent of its workforce.

Meta is currently developing a new operating system for digital glasses that could compete with similar operating systems like IOS, Android, and Microsoft. Meta has also launched Horizons Workspace, which enables work-from-home in VR environments. Quest, its digital platform, is the market-leading game platform for VR games.

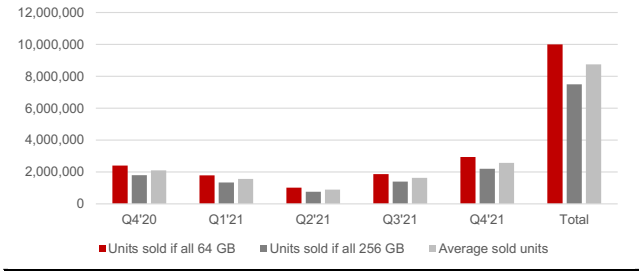
Meta released its first Oculus Quest console in 2019. The Quest headset is wireless and battery-driven, allowing ease of movement in the physical and digital world. The low adoption rate among consumers and the high pricing range meant the release was less than successful.

Meta then released its successor Oculus Quest 2 in Q4 2020, the reception of which has been encouraging since release. The updated version includes a more powerful chip, with a larger memory, and the display offers a 50 percent enhanced experience. Quest 2 weighs less and has an improved battery. More importantly, the standard price is ~34 percent less versus the previous version. Making the headset more affordable has increased the audience. The Quest headset is continuously being development, providing new and updated features. One of the latest updated versions allows wireless transfer of audio and pictures from PCs, enabling high-resolution games.

Various reports, including from the Qualcomm investor day presentation at the end of 2021, the Oculus Quest 2, which includes a Qualcomm chip, has sold more than 10 million units since its launch in October 2020, outselling the PS5 and Xbox Series X in Q4 2020-Q4 2021. Pre-bookings for the Oculus Quest 2 were five times higher than for the Quest 1.

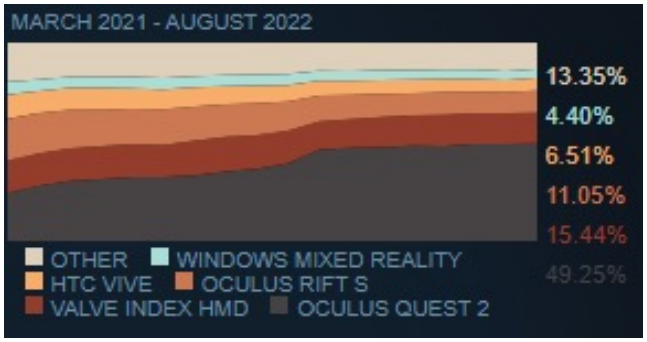
Based on Meta's quarterly reports and the price range for the two different memory alternatives (64 GB and 256 GB), we estimate Meta has sold ~9 million units. Well-known analyst Ming-Chi Kuo estimates the Quest 2 could sell 18-20 million units in 2022, an annual increase of ~100 percent, which we consider achievable.

Oculus Quest 2 - Sold units (estimated)



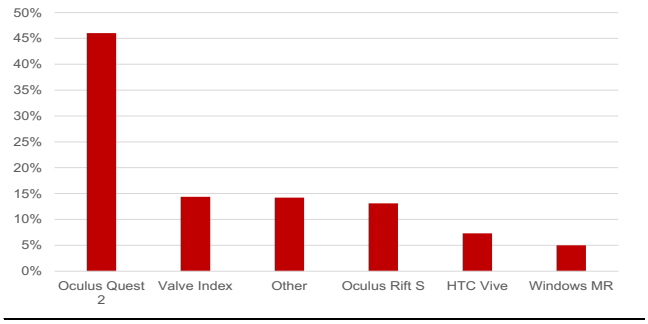
Soruce: Meta, Redeye research

According to Steam's hardware survey, the Oculus Quest 2 reached a market share of ~48 percent, consistently outpacing competitors on a cumulative basis since its launch.



At its Connect event in late 2021, Meta released its upcoming VR headset, project Cambria, which is aimed predominantly for work-related cases. The upcoming headset will include eye and facial tracking to improve the sense of presence in the VR space. According to rumors, Meta is also working on a new Oculus Quest headset, but we do not expect this to be released until 2023.

VR-Hardware - Market share January 2022



Soruce: Valve, Redeye research

Game studios

In recent years, Meta has acquired several game studios that explicitly develop VR games for the Quest platform, increasing the software content on the platform. Meta is also offering highly beneficial development deals, typically financing the development of games while the developer retains IP rights and earns a revenue share after the initial investment has been recouped.

The Big Players are taking to the stage

Apple, Google, and Microsoft are also making entries into the AR/VR space, as they recognize this as the next big computational platform. The space is expected to grow at an explosive rate according to Grand Research and PWC, as all the tech giants enter in the next year or two.

Sony

Sony is developing a new generation of VR headsets and equipment for its recently launched PS5 console. Sony released its first VR headset back in 2016 but sold few units globally owing to the immature market for VR. It states it has learned much since then. No official date is announced, but rumors suggest the new VR headset will be the most advanced on the market and will include PS5, high resolution, and eye-tracking technology that leverages Tobii's technology. The successor to Sony's VR headset is expected to be released in 2023.

Looking at various research, we estimate the PSVR has sold ~6 million units, two million of these in the first year after release. The current user base is much more engaged with VR, and next-generation consoles enable improved user experiences, which is why we believe the PSVR2 will sell in excess of the PSVR on release.

Apple

According to rumors from DigiTimes, Apple has completed production tests phases for its VR/AR headsets and is planning to start mass production this fall, with an expected release in 2023. Apple is simultaneously working on developing MR glasses, which should be priced at much more affordable levels than the expected headset. The expected MR glasses could include 8K visualization in each lens, a massive improvement from the current glasses on the market. The glasses are also expected to include an eye-tracking face ID for three-dimensional meetings and to include up to 15 different cameras to offer a fantastic pass-through AR experience.

More importantly, when Apple enters a new market, this typically brings a massive increase in volumes for the entire market. This could thus offer a great acceleration for VR and AR games.

Microsoft

Microsoft currently sells its VR glasses in collaboration with other hardware developers and has a ~6 percent market share, according to the Road to VR site. There has been no official communication regarding XBOX's further development in this area.

Valve

Valve is the enterprise behind successful game platform Steam. Steam has already launched a VR headset, Valve Index, in the high-end pricing range. Despite the high pricing, Valve Index has captured a market share of ~16 percent in the VR market, according to Road to VR. Despite its price tag of USD ~1,000 and its having been released in 2019, we estimate this VR kit has sold 3-5 million units. Valve is investing heavily in the VR space and recently showed its new product, Steam Deck.

The Chinese market

The Chinese market is massive and offers great possibilities since Meta is currently not allowed to sell its products there. Furthermore, the Chinese gaming market is dominated by mobile, and since the previous VR headsets have been connected to PC/console, the previous development in China has been slow. However, 2022 will be a year characterized by massive investments in the VR/AR space.

There are currently 5-10 wireless VR/AR glasses in production by major tech giants, including Huawei, HTC, Pico, YVR, Qiyi, and Nolo. Several game publishers, backed by Tencent and China Mobile, are also financing developers to publish their games on Chinese platforms. However, one of the challenges in the Chinese market is the stricter restrictions on user content. Furthermore, China has issued several bans against cryptocurrencies. These implications could delay the metaverse experience.

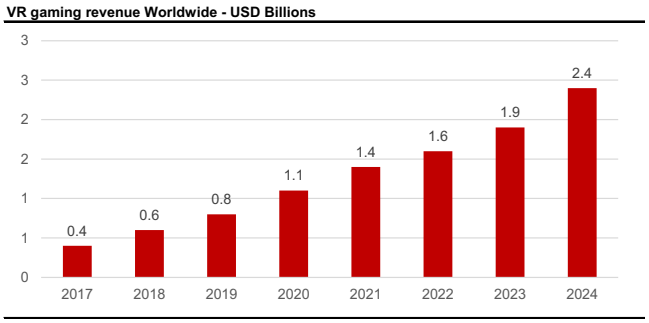
According to IDC, Pico, which was recently acquired by ByteDance (owner of TikTok), is the market leader in China, with a market share of close to 50 percent. In 2021, Pico sold ~500,000 units.

Beyond Frames received a bulk order in January to deliver one of its games to the Chinese market. We thus see clear possibilities for it to increase revenues from this market in the coming years.

Content is king — platform owners are desperate for content

Hardware will drive the XR market, but the software must follow, as a lack of content will hinder hardware sales growth. Both markets will have to grow in parallel, creating a positive spiral. Platform owners such as Facebook/META (Oculus Store) are offering VR developers very beneficial development deals, in which Facebook/Meta typically fully finances the development of games while the developer retains IP rights and a revenue share. Facebook/Meta has also started development studios focused on VR software and has acquired several upcoming VR developers.

It remains uncertain, however, if gaming will be the killer application for VR. Data from PWC and Omdia expect VR gaming revenues to reach USD 2.4bn in 2024. This could suggest the gaming segment will retain a lower market share of the VR space. For instance, Vertigo Games, which was acquired by Deep Silver (Embracer Group) and is one of the market-leading VR studios globally, was projected to have respective revenues and EBITA of EUR 21m and EUR 14m for fiscal year 2021-22. This suggests that global VR gaming revenues are still relatively low.



Soruce: PWC, Omdia, Redeye research

Digital-only distribution—high margins

VR games and software are exclusively distributed digitally, ensuring high margins for the software developers. The top VR digital stores include Oculus Store, Steam, and PlayStation VR, which typically charge a 30 percent revenue cut. Pure VR platforms like the Oculus Store only have about 200+ VR games and apps, making it much easier for VR developers to stand out and take a large market share versus traditional game platforms.



The price of games will increase over time

AAA IPs such as Half-Life, Assassins Creed, Resident Evil, and The Walking Dead are entering the VR space, driving hardware sales but also increasing the average sales price (ASP) as consumers become more willing to pay up for VR games. This trend will likely continue and could also affect the indie and AA segments of VR. Furthermore, Super Data market research estimates that Half-Life: Alyx sold 1.9m digital copies in its first six months. These numbers were previously unheard of for VR games.

High return on investment

VR games tend to be more limited in scope due to some of the challenges in the VR space, such as it being more cumbersome to travel long distances in VR and that spending a very long time in VR tends to be more exhausting physically and can cause nausea, in some instances. VR games tend to focus more on core gameplay and mechanics rather than creating huge worlds, meaning they are smaller in scope.

The development cost for a VR game is typically lower than for PC and console games, and as such, the returns on investment are typically higher. A great example of this is Beat Saber, which has sold more than four million copies at a retail price of USD 30, generated over USD 180m in revenues. The game was developed by Czech developer Beat Games (acquired by Facebook), and the team comprised only two developers.

VR games also tend to have a long lifetime, which raises the possibility of a strong return on investments, increasing the motives for creating new games, which will drive the software market.

Shifting from Games-as-a-Service to Games-as-a-Platform

The metaverse creates new modes that extend engagement and player experience. Over time, gaming has become an experience, through viewing and engaging. The metaverse is the next stage, integrating non-gaming experiences, driven by enhanced technology and consumers' interactions. This enables games to become platforms. On the other hand, the player can use the game platforms to express their identity, host social events, or create their own gaming modes.

The future of games is thus more social, immersive, and creative. Game design will likely see a higher degree of in-game events that create shared experiences in the core game. This suggests possibilities for the player community to have a much larger role in the development stage. Furthermore, the metaverse will allow for new economic possibilities both inside and outside the game.

Examples of these new possibilities are:

- Virtual events: players could pay to attend digital concerts, talks, or other non-game events.
- NFTs: non-fungible tokens could be sold or bought outside the game.
- Play to earn powered by blockchain, players may earn game rewards for contributions to the game ecosystem. This could be used for exchange outside the game via secondary markets for real money.
- Play to collect players can collect NFT items in the game and this increasing engagement could attract new players.
- Pay to socialize monetization mechanics that are designed zto encourage in-game social activities.

To conclude, the metaverse allows for new revenue streams for the game publishers/developers that could be used to attract new players and increase the underlying ARPU.

Development of games experiences

Metric	Past	Present	Future
Game design	Single player stories	Single player & competitive multiplayer	Regular game modes plus social, creative
Avg Players	1 - 4	100 - 1500	10,000+
Reach	Local, single platform	Online Multiplayer, 1 - 3 platforms	Limitless online multiplayer on all platforms
Content	Large game studios	Lean Developers and player-driven	Community & AI driven
Business model	Physical premium one -off transactions	Premium, IAP, subscriptions, licensing	Multi-stream, including digital events, pay to earn, NFTs
Delivery model	Single content release, DLC	Game-as-a-Service	Games-as-a-Platform
Hardvare / Platform	Console + PC	Mobile + powerful PC/Console	Multiplatform, mixed reality & cloud native
Marketing	Traditional retail, publisher partnership	Social media based digital ads & perfomance based ads	Influencer-first, Ip-driven, NFTs & In-game activity

Source: Newzoo, Redeye Research

“Netflix for Games”

From an investor perspective, the business model namely recurring revenue through subscriptions is probably an interesting topic, often called “Software as a Service” SaaS. Microsoft has been the most aggressive player in this area with its Game Pass. While the game library according to us has gone from interesting to awesome during the last 12 months, the number of subscribers recently reached approximately 25-30 million. With no big investments needed in either games or hardware for customers, the industry can likely continue to grow in the years to come.



Subscription Services

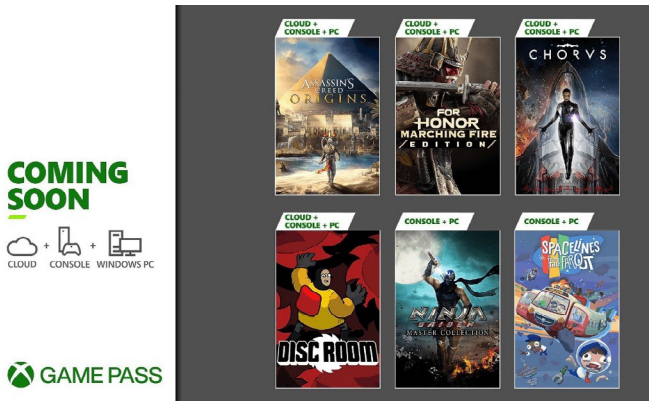
More than three years ago we argued that Microsoft and Sony will be the major players and winners in this field in the years to come. The most obvious reason is of course their current dominance in the console gam-ing market alongside Nintendo. Dominating platform owners in the PC segment (Valve and Epic) and big tech companies such as Amazon, Google, Apple, and Tencent we also expect to be more s erious competi-tors in the future.

Microsoft has succeeded in this "Software as a Service" business model before with for example Windows 365 and Azure. For SEK 99 a month, gamers can pick up all Microsoft Studios games at launch. There is about 450 games which subscribers can enjoy with Game pass.

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

The King of SaaS

Microsoft is estimated to have approximately 25-30 million subscribers currently on its Game Pass service. During the financial year of 2021 ending in June 30, 2022, the service grew by 18% year-over-year. Although 30 million subscribers is an impressive number the number of users that are using Microsoft's online service for games (called Xbox Live) is currently over 100 million. With this comparison subscription services of this kind still are in an early stage.



Microsoft has openly communicated the old rivals Sony and Nintendo are not the main competitors in the future, it is instead Google, Amazon, and other big tech companies. Microsoft's new offering is "Play Everywhere" preferably on Xbox Game Pass. The hardware consumers play on is however of less importance.

Microsoft's big bet in the future is to grow its user base. And they plan to do that not by selling consoles primarily but to sell Game Pass. It's a fact that game consoles are historically sold at a loss (Nintendo not included). This trend is expected to continue for both Microsoft and Sony with the new generation. However, the console makers generate major profits from software, services, and subscriptions.

The future of gaming is about establishing a wide install base and creating an ecosystem where people can connect and play together.

Phil Spencer (Head of the Xbox Division) has boldly claimed that Microsoft is intent on reaching the 2-3 billion gamers in the world. That's an impossible goal if the requirement is for people to own a game console. This is only a possible goal with a software service such as Xbox Game Pass and so-called "Cloud Gaming" for example powered by Microsoft xCloud.

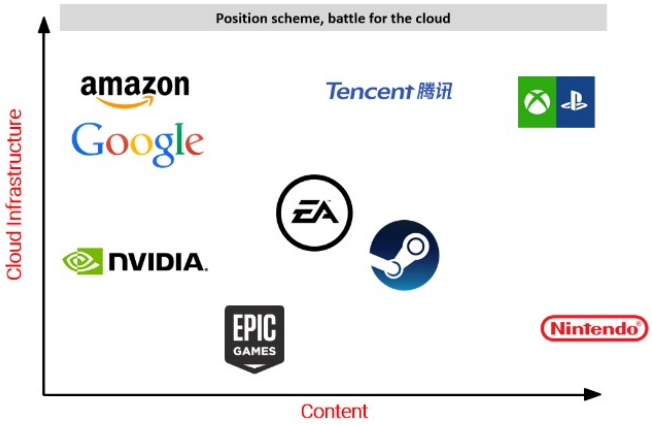
Cloud Gaming

Last year Microsoft launched its cloud gaming service called "xCloud" through its Azure Cloud Architecture. Cloud Gaming is entering its 1.0 version with Microsoft xCloud and other competing technologies. Just like the smartphone needed extensive 3G networks to have a breakthrough the key for true commercialization of Cloud Gaming is the speed of the networks.

Fiber is being widespread, but some key markets like the UK and some parts of the USA are still far behind the countries with the highest fiber penetrations. We believe the coming adoption of 5G could play a vital role in the mass adoption of Cloud Gaming. At peak speed, 5G is roughly 20 times faster than 4G. 5G is expected to reach a 90% penetration in the USA by 2027 and will reach one billion subscribers by the end of this year.

Content is King

More than two years ago we stated and illustrated in a positioning scheme the importance for a company to both have the tech, the cloud infrastructure but also as always, the content.



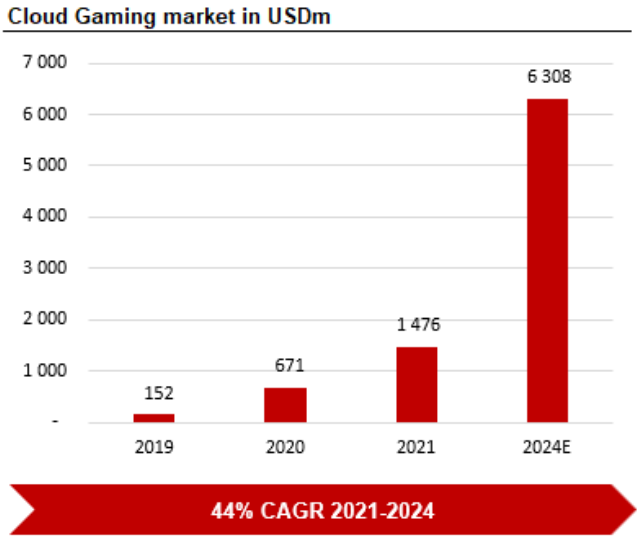
As we wrote Google did not have the content, which remains to be the case. We have tested **Google Stadia** and think the tech is great, so this is clearly not the explanation for the lack of interest in the service amongst customers.

If we look at launched services instead Nvidia with its **Geforce Now** is the big winner.

Nvidia both have the tech and the content due to the access of 1500 games from Steam and Epic Games Store at the big launch. In a few weeks (back in 2020), the subscription service reached 1 million subscribers. Some of the highly popular games in the catalog have since then been deleted, despite that, the user base has continued to grow. However, Nvidia Geforce Now is still outsourced game hardware and does not own any of its content. For consumers, it is a bargain for those mainstream gamers unwilling to pay at least SEK 12 000 for a gaming computer. In 2022, Collete Kress, CFO of Nvidia announced that GeForce Now has around 20 million subscribers that is however with gamers subscribed to the free version of GeForce Now.

The Cloud Gaming Market

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 we believe.



Source: Newzoo

We believe there likely will be three phases in cloud gaming in the next years, driven in part by the development of the infrastructure with 5G and FTTH (Fiber-To-The-Home). In the first phase, single-player games and some less demanding multiplayer games will find an audience. In the second phase, more competitive and therefore more input lag critical multiplayer games will gain a larger audience. In phase three highly demanding and competitive multiplayer games will find mass-market appeal. Currently, we are in phase 2 according to us.

According to Fortune – Business Insights, the Cloud Gaming market generated revenues of USD 1.72 billion in 2021. The growth will continue to be explosive in the next-coming years reaching USD 40.81 billion in 2024. With and CAGR between 2021-2022 of 44%.



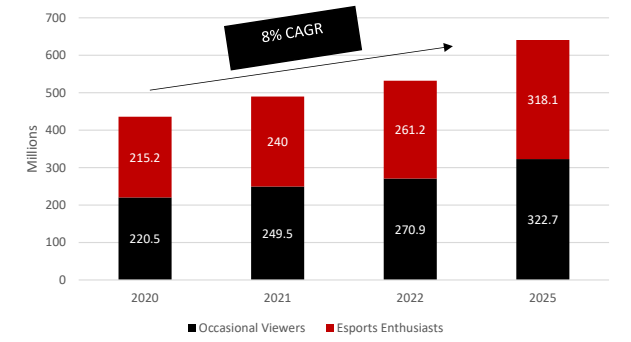
eSport – A global phenomena

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

E-sports

The advancements of the gaming industry has led to the emergence of many associated industries, one of which is esports. There is no exact definition of esports that is widely adopted, but one definition used by Newzoo is "professional or semi-professional competitive gaming in an organized format (tournament or league) with a specific goal/prize, such as winning a championship title or prize money." This definition makes it similar to regular sports, with the main difference being that you compete through video games rather than physical activities. Just as for the gaming market as a whole, the field of esports gained popularity during the pandemic, and the number of viewers was close to 500 million for 2021.

E-sports audience growth



Source: Newzoo, Redeye research

The approximately 500 million viewers generated slightly above USD 1 billion in revenues during 2021, a figure that is expected to reach USD 1,6 billion by 2024, according to Newzoo. Most of the industry relies on sponsorships, and Newzoo expect that close to 60 percent of the revenue is expected to come from sponsors in 2022.

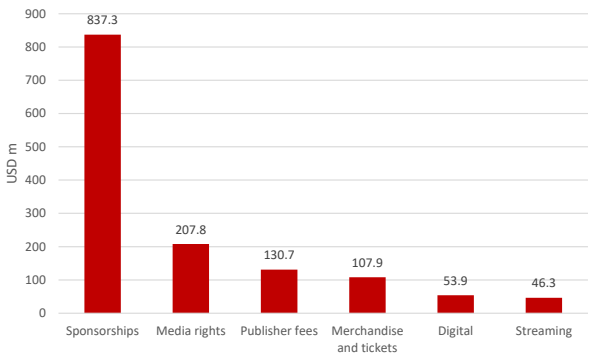
How money and value flows through the industry is not a static process, and exact details may change depending on what perspective is applied. Nevertheless, the industry chart below provides a quick and easy overview of what the exchange could look like. In the chart, the gray lines represent a monetary transaction, and a black line represents value.

How to improve the monetization issue?

The major revenue streams within the E-sport market is sponsorships, followed by media rights and publisher fees. Monetization has been an issue for the industry and there several trends for diversifying and to expand the revenue streams across the industry.

One of the major problems in esports has always been how to make money, that is how to monetize the audience. By relying heavily on sponsorships, the entire sector has made itself dependent on one primary source of revenue. Although brand deals have enabled the emergence of the field to some degree, almost all actors would be in trouble if sponsorships were to be halted. Consequently, organizations are increasingly looking into how they can diversify their revenue sources in order to safeguard future sales.

Esports market revenue, by source (USD millions)



First of all, it is important to emphasize that advertising is highly unlikely to stop contributing to the esports industry anytime soon. The industry is growing rapidly, and it makes it possible for advertisers to target a niche customer base with strong buying power. As an example, "Team SoloMid", one of the world's largest esports teams, recently closed a USD 210 million deal over 10 years with the cryptocurrency exchange FTX regarding the naming rights for its organization. Following the agreement, Team SolMid, or TSM, was renamed TSM FTX.

Direct-to-fan revenues expected to improve cash flow

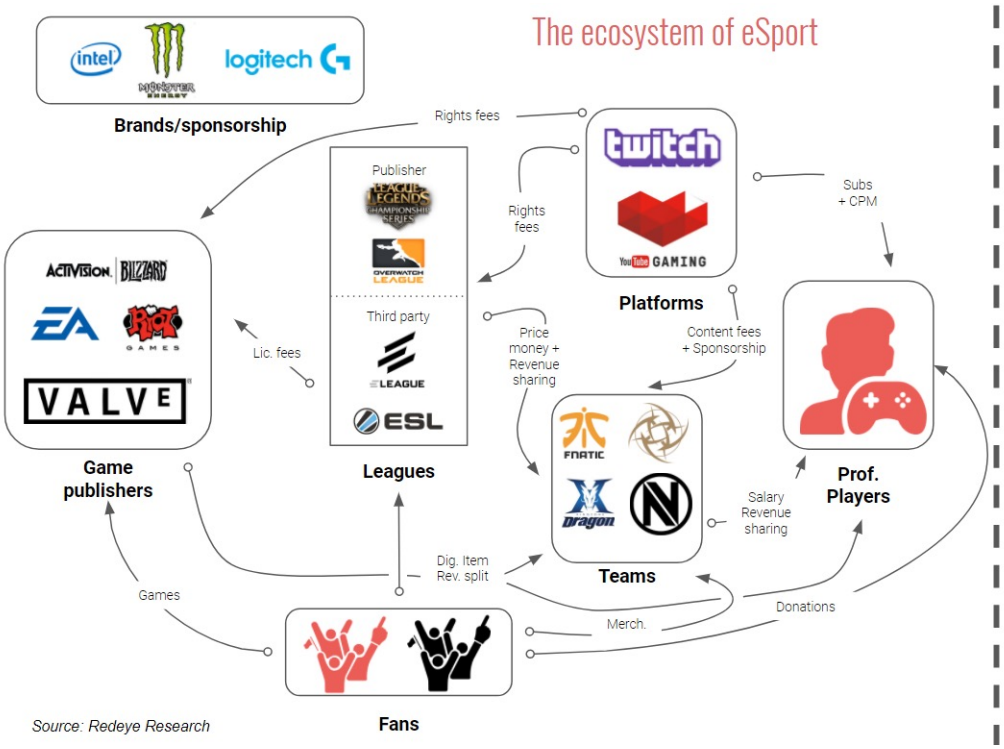
Nevertheless, to diversify the sources of revenue, esports organizations are increasingly looking at direct-to-fan monetization. Direct-to-fan monetization can take many forms, including merchandise, loyalty programs, and education programs. Merchandise has been a common monetization strategy for quite some time, with both individual streamers and teams selling clothes and other memorabilia with their names and logos. This strategy is now being taken to the next level, with some esport teams doing collaborations with large fashion brands such as Puma.

Loyalty programs shall increase recurring revenues

Another way to monetize is through the introduction of loyalty programs. These programs build on a subscription-based model where viewers pay for unique content from their favorite teams and players. This strategy enables teams to generate more revenue, but it also increases engagement and enables better involvement with the audience. Another subscription based model that for example TSM has introduced is training programmes for its fans. For a recurring fee, the fans are able to practice on certain games using everything from entry level services such as an in-game training course to an elite academy where students are taught high level gameplay techniques.

The Ecosystem of eSports

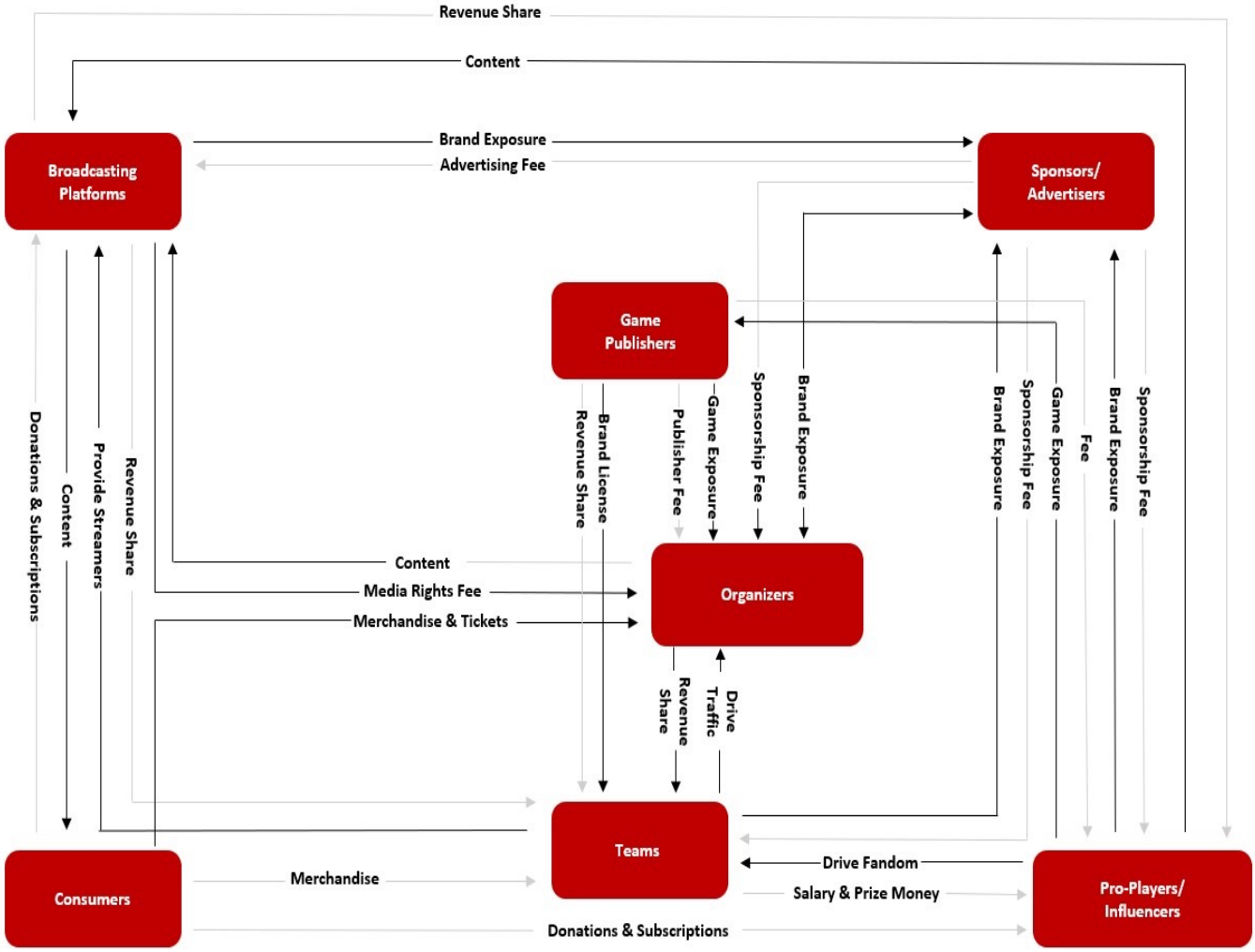
The ecosystem of the eSports industry is both vast and evolving. Here we try to explain how the money and value flow within the value chain and the key stakeholders that exist. We also briefly describe some emerging side industries which are dependent on the primary industry but are growing to a noteworthy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





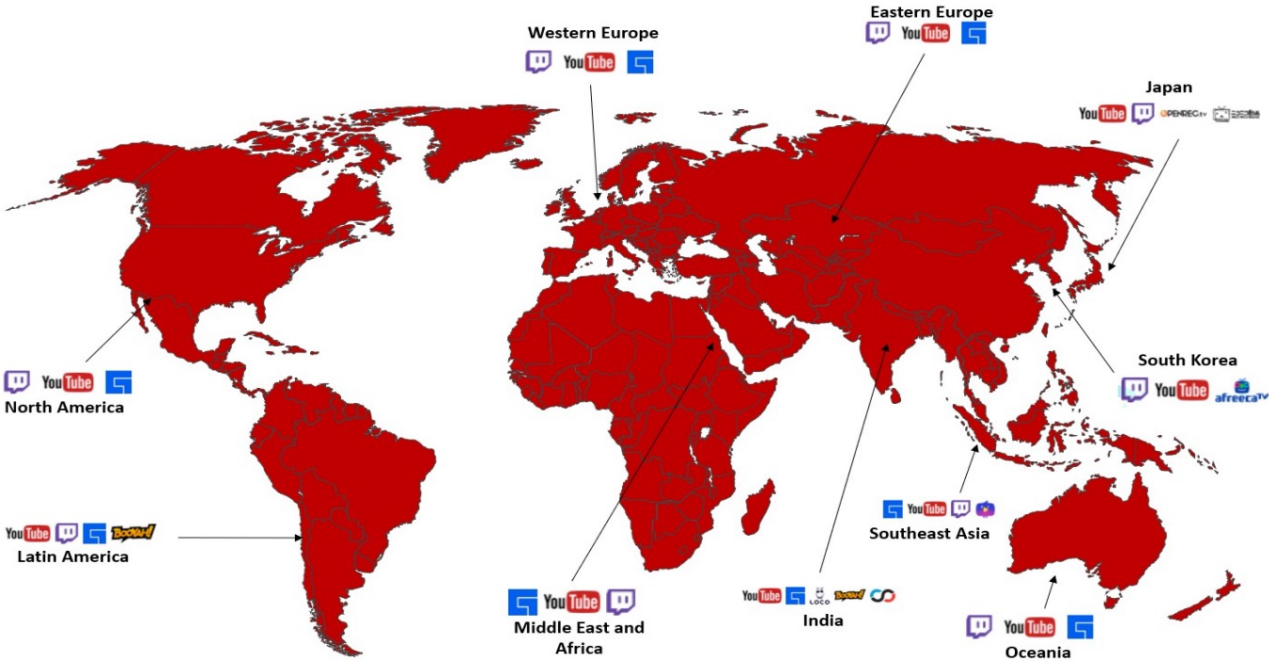
E-sport market could be divided in four different segments

The esports market can be described to have four main types of actors. The first type is the game publishers, and they work to maintain, own, update, and provide the games. The second type of actor is the organizers that create tournaments and leagues where the professional players compete. In some instances this category could be the game publishers themselves, and in other cases it is a separate third party actor. Thirdly, there are streaming platforms that operate as a form of middle man, providing an easy way for the fourth actor, the audience, to access the material that is generated. The audience is often divided into two categories, regular, or recurring, viewers and more casual viewers that tune into events occasionally. In addition to the four types that lay the fundamental infrastructure, you also have teams that organize and train the players, as well as sponsors that finance most of the industry. The following paragraphs will elaborate on each of the actors within the industry in greater detail.



Source: Newzoo 2022 Global Esports & Live Streaming Market Report, Redeye Research

Fragbite: Popularity of streaming services



Source: Newzoo, redeye research

Game Publishers

Hugo Tristão, Esports Market Lead at Newzoo, states that the essence of esports is engagement. As such, it might not be too surprising that all of the top three games within esports, League of Legends, Counter Strike: Global Offensive, and DOTA 2, are free to play. If a game is free to play, the entry barriers for the audience and potential players are almost non-existent, as it enables people to engage without incurring financial costs. The game publishers can also be sorted based on whether they apply a "hands-on" or "hands-off" approach. Some, like Microsoft and Nintendo, take a step back from organizing tournaments and host leagues, leaving it to the community to shape the competitive landscape. Other actors, such as Riot Games, Activision Blizzard, and Valve Corporation, take a more active approach in order to have full control of both developing the games and deciding how they should be played. The latter approach is currently the most popular, and most actors take an active role in order to ensure quality and control over the community. When it comes to the actual game publishers, the market is quite fragmented.

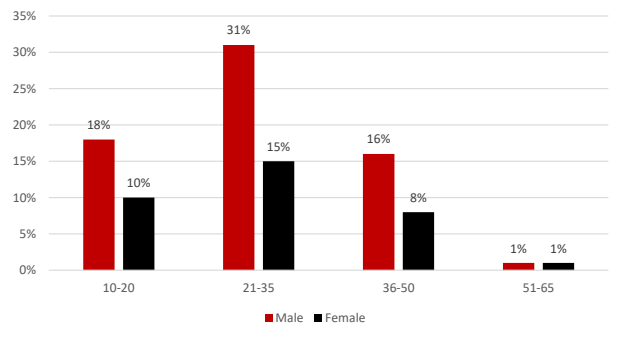
Broadcasting Platforms

Twitch was the dominant player on the streaming market, far ahead of Youtube, as can be seen in the chart below. In the western markets, Twitch and Youtube are often the top two actors, with a somewhat weaker position in the Asian region. The greatest irregularity can be found in the Chinese market, where the owners of Youtube and Twitch. Google and Amazon respectively, are banned from operating.

Consumers

The consumers, or the audience, in the esports market are often divided into esports enthusiasts and occasional viewers. The difference lies in the consistency of which the viewers watch esports games, with esports enthusiasts actively following leagues and the occasional viewers tuning in for larger events. When it comes to demographics, the industry is skewed in favor of young people, and the typical viewer is a male between the ages of 21 and 35.

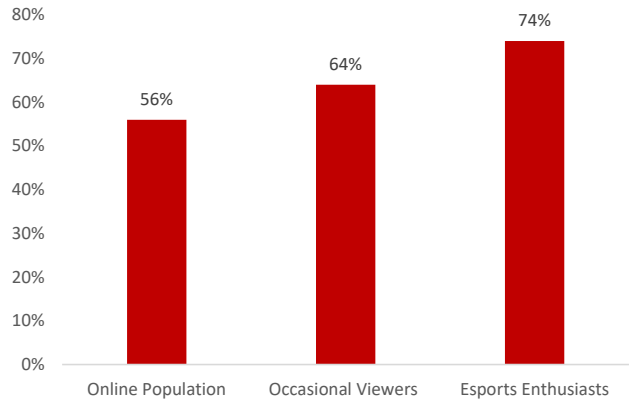
Age/gender distirbution of esports enthusiasts



Source: Newzoo 2022 Global Esports & Live Streaming Market Report

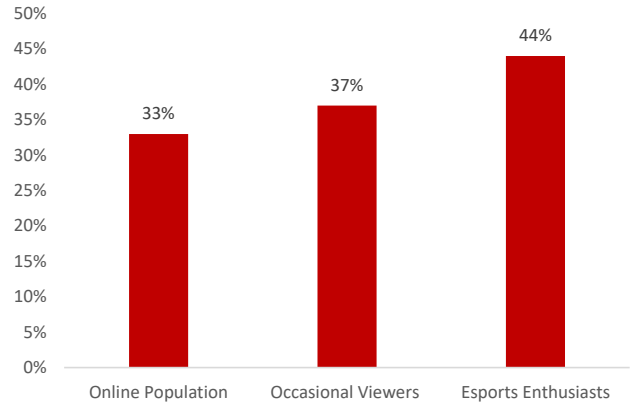
Another interesting aspect of the esports market is that both esport enthusiasts and occasional viewers make more money and are more likely to have a full time job compared to the general online population. This presents an opportunity for many actors as the end customer of the product has an unproportionally strong buying power.

E-sport viewers with full time job



Source: Newzoo 2022 Global Esports & Live Streaming Market Report

E-sport viewvers with high household income



Source: Newzoo 2022 Global Esports & Live Streaming Market Report

The market for esports is also differing quite heavily between different geographical markets. Mobile gaming is much more common in emerging markets, such as Latin America, the Middle East, Africa, Southeast Asia, and India. This is reflected in the behavior of the esport audience, and customers in this market tend to watch people compete in mobile games more often than their peers in developed countries.

Teams and Pro Players

Most esport players are organized through teams, and the teams then compete together in tournaments and leagues. Players, and non-competitive influencers, are sometimes independent, but it can be comforting for a player to be part of a team. Contrary to playing alone and relying solely on prize money, a team can offer you a guaranteed salary as it will generally have more diversified sources of income. Players can also be streamers, which is quite common, in which case they are able to obtain additional sources of revenue through sponsorship, donations, and a revenue share from broadcasting platforms.

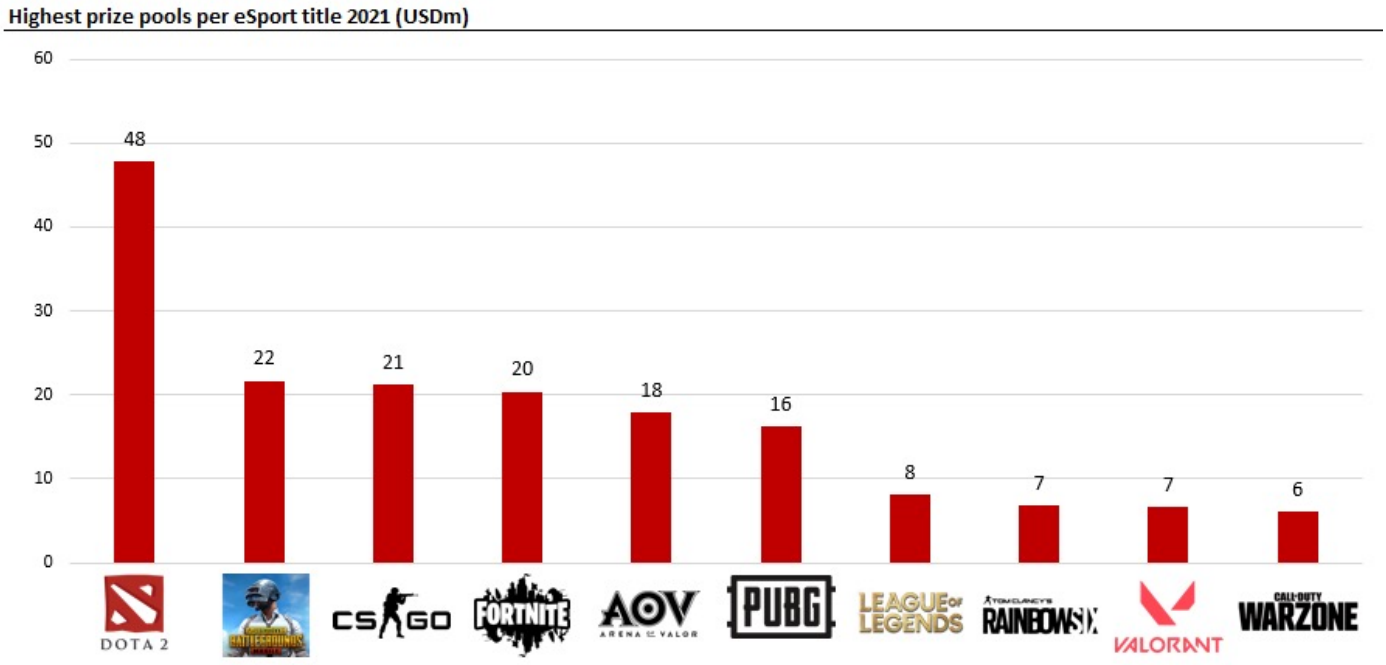
The relation between teams and players has been infected at times, with many teams being accused of putting excessive pressure on the people competing for them. Furthermore, players have been complaining about the irregularity and uncertainty regarding their salaries. This is especially common for players competing in DOTA 2, as almost all of a team's earnings is coming from one tournament, The International. The International consistently pushes the record of having the highest prize pool in esports, and although the winner receives a lot, your team faces a significant risk of bankruptcy if you lose. The uncertainty of the payment structure and the irregularity of payments is a major problem for the whole industry.

eSport tournaments:

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

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

The top eSport titles during 2021 in terms of prize pools where Dota 2 (ARTS), PUBG Mobile (Shooter), Counter-Strike: Global Offensive (FPS), Fortnite (Shooter), Arena of Valor (MOBA), and Call of Duty: Modern Warfare (Shooter).



Tournament Organizers

If a game publisher chooses to stay out of organizing tournaments, this leaves room for independent tournament organizers to enter the industry. The independent organizers do not own the games, but seek the approval from game publishers to host a tournament using their titles. These organizers generate their revenue in several different forms, including sponsorship fees, tickets and merchandise sold to the audience, media rights fees from streaming services, and payments from game publishers in exchange for driving engagement.

The lack of regulatory standards has caused problems for the independent companies setting up tournaments. Players may be hesitant to sign up for these tournaments, as the financial strengths of these organizations may be unknown, resulting in uncertainty regarding the payment of prize money. There have been cases of this in the past, where a tournament is played but the payout money is being withheld. For example, the Malaysian ASEAN Games for Esports tournament were held during 2016, and in June 2017 the winners had yet to receive its money.

Sponsors/Advertisers

As stated previously, sponsorships are expected to generate roughly 60 percent of the industry's revenue in 2022, and traditional companies have become increasingly interested in the industry following the rapid growth of recent years. Companies that have at the forefront of esport sponsorships include large names such as Nike, Adidas, Audi, and Louis Vuitton. However, based on the current macro environment there are risks that advertising budgets are cut which could have a severe impact on the industry.

Investment Summary
Client companies

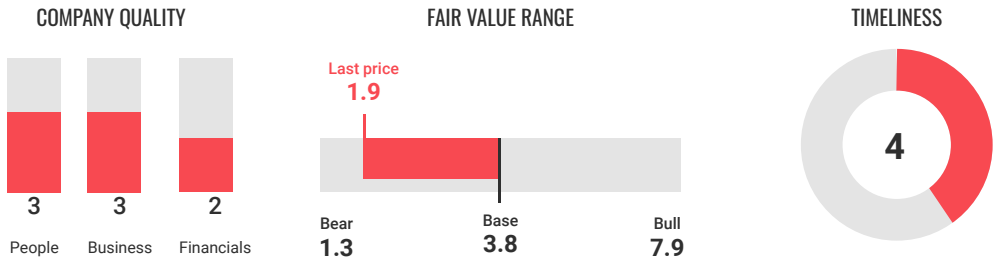


Adverty ADVT

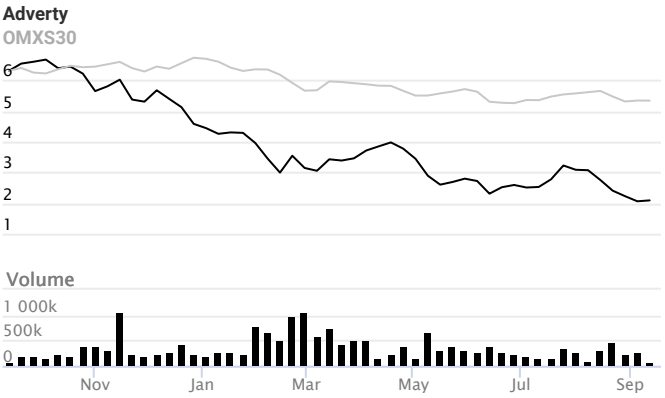
Company page
https://www.redeye.se/company/adverty

Publication date
September 19 2022

Redeye Rating



Snapshot



Marketplace	Nordic SME
CEO	Jonas Söderqvist
Chairman	Joachim Roos

Share information

Share price (SEK)	1.9
Number of shares (M)	31.8
Market cap (MSEK)	60
Net debt (2022E, MSEK)	-8

Analyst



Danesh Zare
danesh.zare@redeye.se

Conflict of interests

Danesh Zare owns shares in Adverty: No

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

Financials

			Redeye Estimates	
	2021	**2022E**	**2023E**	**2024E**
Revenue, MSEK	5	15	29	52
Growth	*>100%*	*>100%*	*95.0%*	*80.0%*
EBITDA	-21	-20	-13	-6
EBITDA margin	*Neg*	*Neg*	*Neg*	*Neg*
EBIT	-22	-25	-18	-12
EBIT margin	*Neg*	*Neg*	*Neg*	*Neg*
Pre-tax earnings	-22	-25	-19	-12
Net earnings	-22	-25	-19	-12
Net margin	*Neg*	*Neg*	*Neg*	*Neg*
Dividend/Share	0.00	0.00	0.00	0.00
EPS adj.	-0.98	-0.81	-0.47	-0.32
P/E adj.	-4.5	-3.8	-6.6	-9.8
EV/S	19.9	6.0	3.3	2.1
EV/EBITDA	-4.4	-4.3	-7.3	-18.2

Last updated: 2022-08-17

Owner	**Equity**	**Votes**
Niclas Kjellgren	11.2%	11.2%
Avanza Pension	8.8%	8.8%
Niklas Bakos	7.1%	7.1%
Pontus Dahlström med familj	3.6%	3.6%
Gainbridge Capital	2.1%	2.1%
Mats Kullstedt	1.8%	1.8%
Nordnet Pensionsförsäkring	1.6%	1.6%
Anders Axelsson	1.5%	1.5%
Johan Fagerström	1.4%	1.4%
Jens Miöen	1.3%	1.3%

Company description

Adverty is an advertising technology company founded in 2017 in Stockholm, Sweden. They have offices in Stockholm, London, Ukraine, and New York, and is a small company with 19 employees. All the development of the technology platform is being done in Ukraine.

Adverty describes themselves as the first and leading providers of seamless, programmatic in-game ad solutions and has created an innovative display advertising technology platform built for games that connect advertisers, agencies, and game developers to help brands reach consumers. The platform offers unique in-game ad inventories at scale and allows publishers and game developers to monetize their games with non-intrusive, easy-to-integrate ads. Adverty's approach to in-game advertising is new and revolutionary, and they are paving the way for immersive in-game advertising.

Investment thesis

Case

First mover advantage on the growing in-game advertising market

Adverty is one of the leading actors in the fast-growing in-game advertising market. Its innovative and patented solution for mobile devices creates a first-mover advantage. Furthermore, the business model creates a win-win-win situation for all parts. Advertisers increase their ROI on marketing, game publishers maximize their ad revenues, and consumers get an improved user experience. Thus, we expect more advertisers and game publisher to utilize in-game advertising over time and sees Adverty as an attractive pick and shovel play on the industry.

Evidence

Market is taking off

The in-game advertising market is expected to increase rapidly going forward. Data from Sensor tower and Newzoo point towards an inflection point. We expect 2022 to be the year when sales really take off and believe upcoming quarterly reports and signed partnerships to act as catalysts.

Challenge

Commercialization

The in-game advertising market is yet to be mature and there are some risks that the in-game advertising market will not take off. Holding back the growth and profitability.

Challenge

Valuation

High upside if case materializes

We forecast a 21-24'e sales CAGR of 154% and expect the company to be profitable in 2024. At our target price, Adverty would trade at 15x EV/EBITDA(24'e).

Catalyst types

Launch of a new ad format

Adverty will launch the In-Menu ad format in Q1 2021 at the latest.

The in-game advertising market taking off

The market of in-game advertising is set to take off soon.

Reaching proftiability

Adverty is will reach profitability in 2023

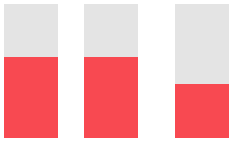
Beyond Frames BEYOND

Company page
https://www.redeye.se/company/beyond-frames

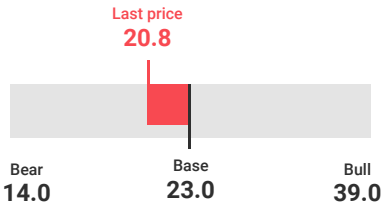
Publication date
September 15 2022

Redeye Rating

COMPANY QUALITY



FAIR VALUE RANGE

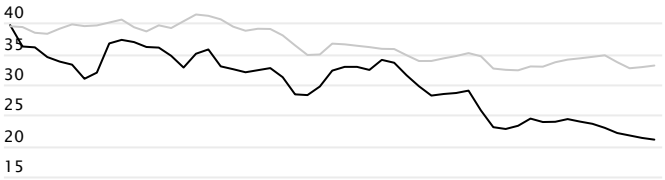


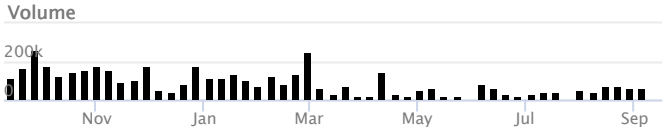
TIMELINESS



Snapshot

Beyond Frames
OMXS30





Marketplace	Spotlight Stock Market
CEO	Ace St. Germain
Chairman	Fredric Gunnarson

Share information

Share price (SEK)	20.8
Number of shares (M)	17.2
Market cap (MSEK)	357
Net debt (2022E, MSEK)	-51

Analyst



Viktor Lindström
viktor.lindstrom@redeye.se

Conflict of interests

Viktor Lindström owns shares in Beyond Frames: No

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

Financials

			Redeye Estimates		
	2020	2021	2022E	2023E	2024E
Revenue, MSEK	12	24	35	52	69
Growth	*>100%*	*90.6%*	*48.1%*	*49.1%*	*32.4%*
EBITDA	2	-1	-6	8	15
EBITDA margin	*16.2%*	*Neg*	*Neg*	*15.7%*	*22.9%*
EBIT	-3	-9	-12	0	4
EBIT margin	*Neg*	*Neg*	*Neg*	*Neg*	*6.9%*
Pre-tax earnings	-7	-8	-12	0	4
Net earnings	-7	-8	-12	0	5
Net margin	*0.0%*	*0.0%*	*0.0%*	*0.0%*	*0.0%*
Dividend/Share	0.00	0.00	0.00	0.00	0.00
EPS adj.	-0.54	-0.56	-0.75	-0.02	0.29
P/E adj.	-38.2	-63.5	-28.0	-987.8	71.8
EV/S	20.2	20.4	8.8	6.3	5.0
EV/EBITDA	124.9	-324.7	-49.0	40.2	21.8

Last updated: 2022-08-30

Owner	Equity	Votes
Arvr Holding AB	17.4%	17.4%
Avanza Pension	15.2%	15.2%
Mathias Fredriksson	12.1%	12.1%
Ricky Helgesson	6.0%	6.0%
Reaktor Ventures Oy	5.0%	5.0%
Magnus Unger	4.7%	4.7%
Catherine Ehrensvärd	4.6%	4.6%
Futur Pension	4.1%	4.1%
Fredric Gunnarson	3.9%	3.9%
SEB Life International	3.5%	3.5%

Company description

Beyond Frames Entertainment är inriktade mot dataspelsindustrin och fokuserar på att skapa en plattform för spelutvecklare. Via flertalet spelstudios samlar bolaget tekniska utvecklare för att skapa och öka spelupplevelsen inom VR och AR. Genom förvärv och uppbyggnad av nya spelstudiors bidrar bolaget med marknadsföring, administration, nätverk samt möjligheten till relationsbyggande för plattformsägare. Huvudkontoret ligger i Stockholm.

Investment thesis

Case

Attractive exposure towards the growing VR industry

Beyond Frames is a game developer and publisher niched towards the VR market, an area still in its infancy but expected to grow by a CAGR of 18 percent until 2028, driven by hardware and software investments. Moreover, VR games tend to have a long life-span and lower development budgets than traditional premium PC/console games. This, in combination with their solely digital distribution, brings high operating margins and a healthy return on investments. Beyond Frames aims to expand its game portfolio tenfold, which is why we forecast a 2021-24E sales CAGR of 51 percent.

Evidence

Tech giants entering the field

Meta, the current market leader in the VR space, spent USD 10bn last year on capitalizing on the market opportunities. Its VR headset, Oculus Quest 2, has sold ~10 million units since its launch (Q4 2020), and analysts forecast Meta can sell ~18 million units in 2022. In addition, Sony is expected to release its PSVR2 in 2022, and several other major tech players are investing in the field. An additional catalyst for expanding the user base.

Challenge

Commercialization

The VR industry is still in its infancy and remains dependent on large hardware investments to make VR headsets more affordable to the wider audience. There are risks that the commercialization of VR headsets will take longer than expected, which would naturally affect the global user base. Additionally, VR headsets could be used for other functions, particularly in several work applications and in education. There is no guarantee of gaming as the killer application for VR headsets.

Challenge

Valuation

Superior growth

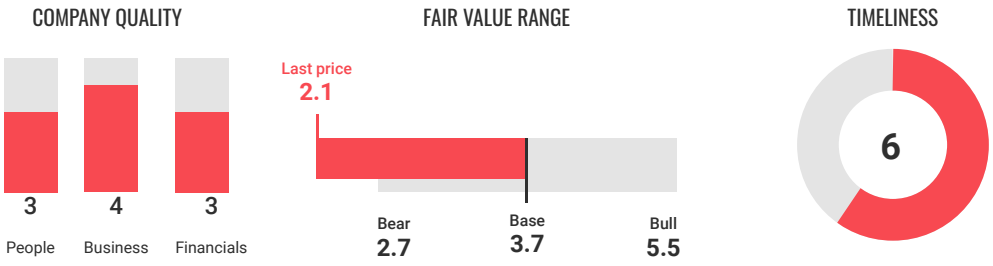
We forecast a 2021-24E sales CAGR of 51 percent and expect Beyond Frames to be profitable on the EBITDA level in 2023. However, high investments in its game portfolio in the coming years will limit any free cash flow until 2024. On our Base Case, Beyond Frames trades at 25x 2024E EV/EBITDA.

CI Games CIG

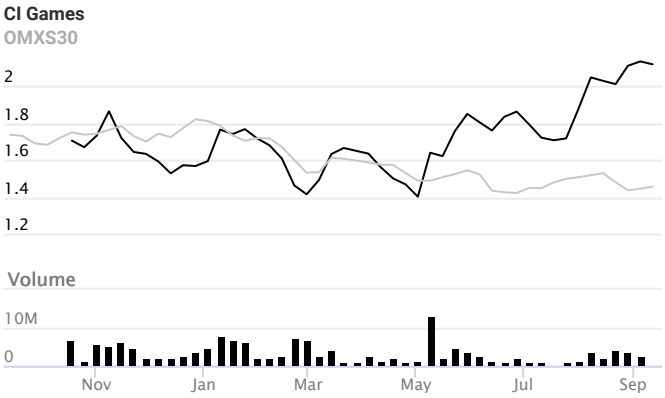
Company page
https://www.redeye.se/company/ci-games-2

Publication date
September 15 2022

Redeye Rating



Snapshot



Marketplace	Warsaw Stock Exchange
CEO	Marek Tyminski
Chairman	Ryszard Bartkowiak

Share information

Share price (PLN)	2.1
Number of shares (M)	182.9
Market cap (MPLN)	390
Net debt (2022E, MPLN)	-12

Analyst



Viktor Lindström
viktor.lindstrom@redeye.se

Conflict of interests

Viktor Lindström owns shares in CI Games: No

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

Financials

	2020	2021	Redeye Estimates 2022E	2023E	2024E
Revenue, MPLN	46	106	60	226	204
Growth	*-3.1%*	*>100%*	*-43.2%*	*>100%*	*-10.0%*
EBITDA	27	60	21	145	116
EBITDA margin	*60.5%*	*57.3%*	*36.4%*	*64.2%*	*57.0%*
EBIT	8	40	13	94	82
EBIT margin	*19.0%*	*38.2%*	*22.3%*	*41.6%*	*40.3%*
Pre-tax earnings	8	42	17	94	82
Net earnings		38	16	76	66
Net margin	*15.4%*	*36.6%*	*26.8%*	*33.9%*	*32.8%*
Dividend/Share	0.00	0.00	0.00	0.00	0.00
EPS adj.	0.04	0.21	0.09	0.42	0.37
P/E adj.	30.5	7.6	24.3	5.1	5.8
EV/S	4.1	2.4	6.3	1.4	1.3
EV/EBITDA	6.8	4.2	17.3	2.2	2.3

Last updated: 2022-09-15

Owner	Equity	Votes
Marek Tyminski	29.0%	29.0%
Rockbridge Towarzystwo Funduszy	9.0%	9.0%
Other Shareholders	62.0%	62.0%

Company description

City Interactive, förkortade CI Games, är verksamma inom teknikbranschen. Bolaget är idag specialiserade inom dataspelsutveckling. Utbudet består av spel inom olika genren och inkluderar exempelvis Sniper Ghost Warrior och Alien Rage, anpassade för Playstation och Xbox. Bolaget grundades under 2002 och har störst verksamhet inom Europa.

Investment thesis

Case

High quality game developer / publisher at discount

CI Games two internal IPs are among the best in class and have sold over 15 million copies, and have a stable, engaged player base to capitalize on. Furthermore, strong IPs enable further DLC/Updates at low incremental costs, which are very profitable. In 2021, the company had EBIT margins of around 45%. CI Games targets mid and hardcore gamers that are less price-sensitive, which should support pricing power over time. An average Metacritic score of 75/100 indicates its development quality. CI Games is expected to harvest on its game development investments and will release two games in 2023 from its market-leading IPs. We believe this will drive solid earnings growth in the coming years.

Evidence

Sequel and DLC's from existing IPs

In 2021, CI Games released a sequel game on its beloved franchise SGW. The new game came with improved gameplay based on player feedback from previous games. The game has outperformed the latest game and was recouped after 2 months. This also mitigates the development costs and improves the ROI.

Challenge

Game production delays

The market for video games is driven by the expectations associated with new game releases. Based on the distance working and current component shortages, there are risks that game releases will be delayed. Furthermore, the component shortages hold back the production of next-gen consoles and limit the player base which holds back sales.

Challenge

Valuation

Room for multiple expansion

We expect CI Games to deliver solid earnings growth in the coming years on the back of a strong pipeline of games. At our base case, CI Games would trade at 15x EV/EBIT. Which we deem fair as it manages to deliver EBIT margins in excess of 30%.

Catalyst types

Buy-backs/Dividends/Acquisitions

CI Games has a healthy balance sheet with no interest-bearing debt outstanding. Moreover, we believe it is time for it to capitalize on the extensive investments it has already made. Decreasing the concentration risk in its game portfolio

Strong quarterly results

Solid quarterly results that prove its back catalog sales and profitability levels shall support the share.

Platform Fees

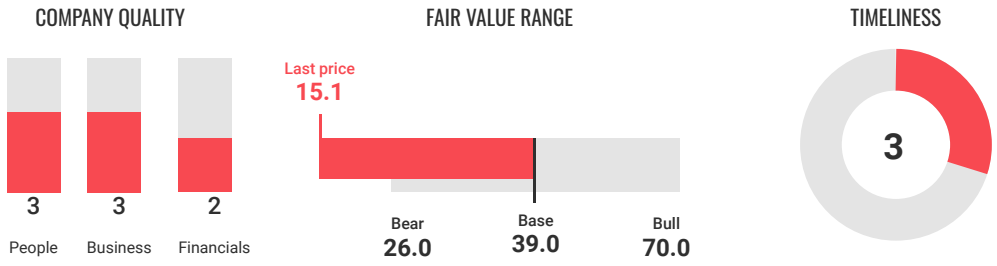
In 2020, ~75 percent of revenues came from digital sales, while 70 percent of revenues were generated through console platforms. Redeye expects this trend to continue and so potential cuts to platform fees could be a massive catalyst going forward.

EG7 EG7

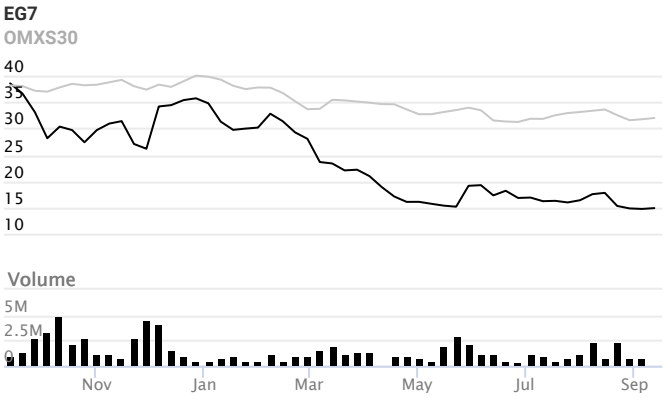
Company page
https://www.redeye.se/company/eg7

Publication date
September 15 2022

Redeye Rating



Snapshot



Marketplace	First North Stockholm
CEO	Ji Ham
Chairman	Alexander Albedj

Share information

Share price (SEK)	15.1
Number of shares (M)	88.6
Market cap (MSEK)	1,337
Net debt (2022E, MSEK)	-69

Analyst



Hjalmar Ahlberg
hjalmar.ahlberg@redeye.se

Conflict of interests

Hjalmar Ahlberg owns shares in EG7: Yes

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

Financials

			Redeye Estimates		
	2020	**2021**	**2022E**	**2023E**	**2024E**
Revenue, MSEK	569	1,670	1,737	1,739	1,869
Growth	*>100%*	*>100%*	*4.0%*	*0.1%*	*7.5%*
EBITDA	12	379	372	386	418
EBITDA margin	*2.2%*	*22.7%*	*21.4%*	*22.2%*	*22.4%*
EBIT	-3	289	283	281	305
EBIT margin	*Neg*	*17.3%*	*16.3%*	*16.2%*	*16.4%*
Pre-tax earnings	-95	90	-117	121	145
Net earnings	-98	96	-171	91	109
Net margin	*0.0%*	*0.0%*	*0.0%*	*0.0%*	*0.0%*
Dividend/Share	0.00	0.00	0.00	0.00	0.00
EPS adj.	-1.22	2.19	2.23	2.43	2.63
P/E adj.	-99.6	16.0	6.7	6.2	5.7
EV/S	15.4	1.8	0.7	0.7	0.6
EV/EBITDA	711.9	7.8	3.3	3.0	2.5

Last updated: 2022-09-01

Owner	**Equity**	**Votes**
Settecento LTD	10.4%	10.4%
Media and Games Invest SE	8.2%	8.2%
Jason Epstein	7.9%	7.9%
Dan Sten Olsson med familj och stiftelse	7.9%	7.9%
Swedbank Robur Fonder	5.3%	5.3%

Company description

Enad Global 7 ("EG7") has through active M&A built a global gaming group with focus on live service games coupled with smaller operations in publishing and marketing. The majority of its revenue is derived from the Game segment (c. 60-70%) which in turn is dominated by Daybreak Studios. The service segment (c. 30-40%) of revenue is comprised of the publisher Fireshine Games and the marketing company Petrol. The company had around 700 employees in 2022.

Investment thesis

Case

Solid Portfolio of Live Service Games

With an active history of M&A, EG7 has built a solid portfolio of live service games which is dominated by titles from its Daybreak studio including among other DC Universe, Everquest 1&2, Lord of The Rings and Magic the Gathering Online. The live service game portfolio is complemented with premium game development and a service segment focusing on publishing and marketing. This creates a low risk diversified gaming group with solid cash generation. We expect the group to grow in line with the gaming market with potential to stronger profit growth in the back of margin expansion if its premium game development business becomes successful.

Evidence

Long Life Games and Stable Profitability

With a large part of EG7's revenue being derived from its Game segment (c. 60-70%) and the majority of this coming from its live service games EG7 can generated stable revenue and profitability. The games have strong brands and have been enjoyed for many years by its players supporting the stable revenue generation. The company's service segment has also seen strong performance on the back of successful games in its publishing business further improving the company's overall profitability.

Challenge

Limited Growth Potential in Live Service Games

We think the main challenge for EG7 is to grow its Live Service Games portfolio. While this generates stable profitability and strong cash generation, the inflow of new players is limited in our view. Growth will rather be dependent on the addition of new games where the company has a limited track record.

Challenge

Valuation

Base case DCF supported by stable profitability and cash generation

We find a base case valuation of SEK39 per share for EG7 which is derived from a DCF-valuation. The base case implies an EV/EBITDA multiple of 8x on our 2023E EBITDA. Our base case assumes growth of 7% between 2022-27E and 4% between 2028-37E with a terminal growth of 2%. We assume profitability in line with the high-end of the company's target with 22% EBITDA-margin for the majority of the forecast period and the terminal period.

Catalyst types

Payment for divestmet of Innova

EG7 has divested Innova, however, the buyer has also borrowed capital from EG7 to pay the acquisition. It is uncertain if or when the loan will be repaid but if it is it could yield around SEK300-350m (SEK3.5-4 per share) in cash to EG7.

Launch of new games

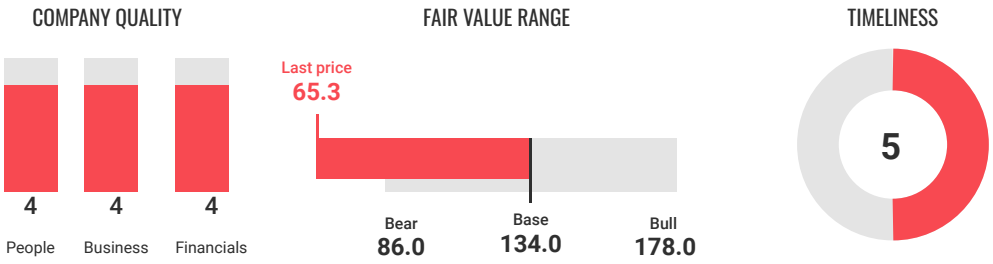
EG7 has several new games expected to be released over the coming years which could add upside potential to revenue and profit estiames

Embracer Group EMBRAC B

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

Publication date
September 15 2022

Redeye Rating



Snapshot

Embracer Group
OMXS30



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

Share information

Share price (SEK)	65.3
Number of shares (M)	1,240.4
Market cap (MSEK)	80,950
Net debt (2022E, MSEK)	7,346

Analyst



Tomas Otterbeck
tomas.otterbeck@redeye.se

Conflict of interests

Tomas Otterbeck owns shares in Embracer Group: Yes

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

Financials

	20/21	21/22	Redeye Estimates 22/23E	23/24E	24/25E
Revenue, MSEK	9,028	17,039	39,751	45,738	49,937
Growth	*71.9%*	*88.7%*	*>100%*	*15.1%*	*9.2%*
EBITDA	2,655	6,138	12,432	15,838	17,671
EBITDA margin	*29.4%*	*36.0%*	*31.3%*	*34.6%*	*35.4%*
EBIT	2,874	4,420	9,752	11,722	13,126
EBIT margin	*31.8%*	*25.9%*	*24.5%*	*25.6%*	*26.3%*
Pre-tax earnings	-650	-3,813	7,116	9,733	11,295
Net earnings	-1,043	-4,283	5,453	7,389	8,666
Net margin	*Neg*	*Neg*	*13.7%*	*16.2%*	*17.4%*
Dividend/Share	0.00	0.00	0.00	0.00	0.00
EPS adj.	3.37	3.70	6.93	7.55	8.47
P/E adj.	35.7	21.4	9.4	8.6	7.7
EV/S	10.0	6.2	2.3	1.8	1.5
EV/EBITDA	34.1	17.2	7.2	5.3	4.2

Last updated: 2022-08-24

Owner	Equity	Votes
Lars Wingefors AB	21.2%	39.8%
Savvy Gaming Group	8.1%	5.4%
S3D Media Inc	6.8%	10.8%
Swedbank Robur Fonder	5.5%	3.7%
Canada Pension Plan Investment Board (CPP)	4.6%	3.1%
PAI Partners	3.5%	2.3%

Company description

Embracer Group is a gaming company focused on developing and publishing games on the global market. Embracer has since Lars Wingefors founded the company in 2011, established a strong platform and product portfolio under high growth and profitability. The Group has an extensive catalog of over hundreds of owned franchises, such as Borderlands, Saints Row, Goat Simulator, Dead Island, Darksiders, Satisfactory, Valheim and World War Z amongst many others. Embracer Group has a global presence through its ten operative groups: THQ Nordic, Koch Media, Saber Interactive, Coffee Stain, DECA Games, Gearbox, Easybrain, Asmodee, Dark Horse and Amplifier Game Invest.

Investment thesis

Case

A majority of the business is recurring revenue

Embracer Group is what we like to call an owner-operator company where the management team owns 40%+ of capital, has extensive experience from the industry, and is highly committed to building "something big." With at least 80% of total sales generated from its back catalog, Embracer has transformed into a more stable cash machine during the last year with the latest major acquisitions in two new verticals namely mobile games and board/card games.

Evidence

Most of the asset value is still untapped

The amount of development budget that is released in FY 22/23 will at least triple compared to FY 21/22, reaching approximately SEK 4 billion. This will take revenues and the profits to entirely new levels according to our estimates. We believe that the market is still to fully grasp the underlying value and cash flow generating capabilities of Embracer's growing IP portfolio. Development projects including at least 25 AAA will be released in the coming years.

Challenge

Investor perception

More stable cash flows come with a price in Embracer. The EBITDA margins has decreased considerably with mobile games and board/card games accounting for two thirds of total revenue. The upcoming high-budget (AAA) game releases could ha an excessive impact on the perception of Embracer as a premium player with brand moats. If the potential commercial successes fail it will hurt the valuation of the stock.

Challenge

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. Incentive programs is somewhat a black box to investors and the long-term commitment from key personnel will always be a key risk in an entrepreneur-driven powerhouse as Embracer.

Valuation

Premium at a discount

The Embracer stock is traded around historically low multiples. With our expected double digit organic growth, dramatically increased cash flow generation with maintained good profitability levels we expect the stock price will rise frow current levels during 2022-2024.

Catalyst types

Priced for disaster

In late August Embracer released the new installment in the highly popular series Saints Row. We estimate a development budget of more than SEK 1 billion and a marketing budget of at least SEK 200 million. The game was a disappointment both for critics and gaming fans. We do not know how bad this has impacted game sales, despite the fact that game sales have not been communicated which often means sales are not a positive surprise. Another unknown variable is the payment for the exclusive deal with Epic Games. All in all the stock has already priced in a very pessimistic scenario, and the risk/reward is fairly good from this level according to us.

Royalty income from Borderlands

Gearbox first AAA-game as a part of the Embracer-family (yet another game in the Borderlands-universe) was released on March 25, 2022. Redeye estimates the game budget was SEK 900-1000 million including marketing. However, the game is entirely financed by Take-Two Interactive. We estimate a healthy royalty cut of around 30-50% of the profits and the first royalty payment is expected to be reported in Embracer's next quarterly report (will be published November 17).

Moving to the main list in Stockholm

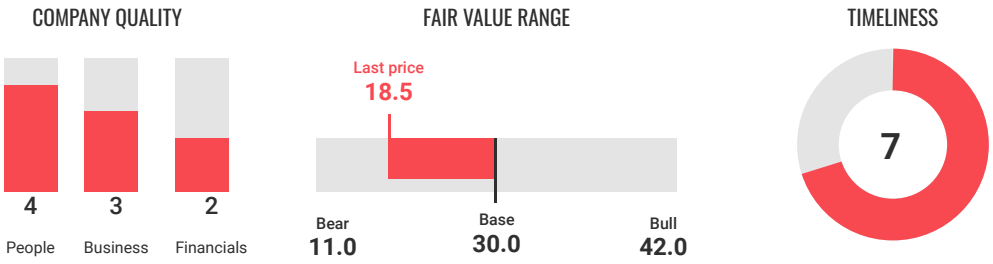
Embracer recently started to report in IFRS, which was the most important change in its plan to move to the main OMX list in Stockholm. This movement is expected to take place before the end of 2022. Many index funds will buy stocks when this event takes place, which always creates a major "buy-side" in the stock.

Flexion Mobile FLEXM

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

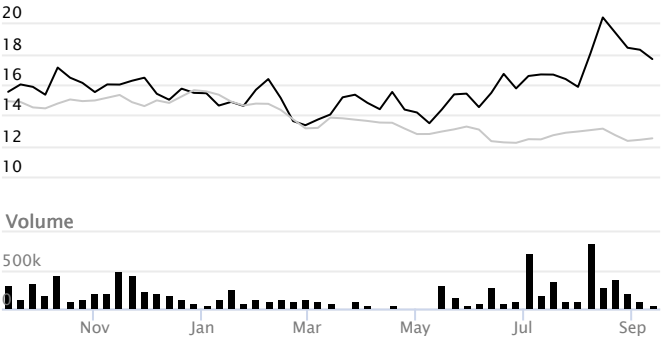
Publication date
September 15 2022

Redeye Rating



Snapshot

Flexion Mobile
OMXS30



Marketplace	First North Stockholm
CEO	Jens Lauritzson
Chairman	Carl Palmstierna

Share information

Share price (SEK)	18.5
Number of shares (M)	51.3
Market cap (MSEK)	947
Net debt (2022E, MGBP)	-7

Analyst



Tomas Otterbeck
tomas.otterbeck@redeye.se

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

			Redeye Estimates	
	20/21	**21/22**	**22/23E**	**23/24E**
Revenue, MGBP	21	33	65	88
Growth	*>100%*	*58.2%*	*99.0%*	*35.5%*
EBITDA	-1	3	5	12
EBITDA margin	*Neg*	*10.8%*	*8.9%*	*14.0%*
EBIT	-1	0	3	9
EBIT margin	*Neg*	*Neg*	*5.6%*	*11.3%*
Pre-tax earnings	-1	0	3	9
Net earnings	-1	0	2	7
Net margin	*Neg*	*Neg*	*4.5%*	*9.0%*
Dividend/Share	0.00	0.00	0.03	0.08
EPS adj.	-0.03	-0.01	0.06	0.16
P/E adj.	-1,401.3	-9,918.4	1,268.5	465.2
EV/S	83.1	113.0	56.9	41.9
EV/EBITDA	-1,349.6	1,042.2	641.3	299.3

Last updated: 2022-07-04

Owner	**Equity**	**Votes**
Mobile Sensations Ltd	22.0%	22.0%
Carl Palmstierna	6.8%	6.8%
Fredrik Palmstierna	4.6%	4.6%
Odey Asset Management LLP	4.3%	4.3%
Joachim Odqvist	3.1%	3.1%
eQ Asset Management Oy	3.1%	3.1%
Avanza Pension	2.6%	2.6%

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 Huawei Appgallery, Amazon Appstore, Samsung Galaxy Store, 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... and Flexion has it
- Duopoly in doubt... a trend that benefits Flexion
- Risk-Control... Flexion can bet on "sure things"

Content is King... and Flexion has it
Like all platform companies, Flexion needs blockbuster content. During the last year the company has signed contracts with some of the global market's highest grossing games. Their network effects are most important – strengthening Flexion's future market position.

Duopoly in doubt... a trend that benefits Flexion
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.

Risk-Control... Flexion can bet on "sure things"
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.

Going forward, revenue growth will be most important for the stock's valuation. Our base case anticipates explosive growth over the next two years. This reflects Flexion's first-mover opportunity and its growth from a low base.

Catalyst types

Double Up
With its current portfolio of newly added games, Flexion has the potential to at least double its revenue in 24 months. Quarterly reports that show a good growth trajectory are an obvious catalyst for this growth case.

Takeover Target
With Flexion's established position in this niche market, we believe the company is a takeover target. The alternative Android market is growing rapidly, fuelled by major tech companies.

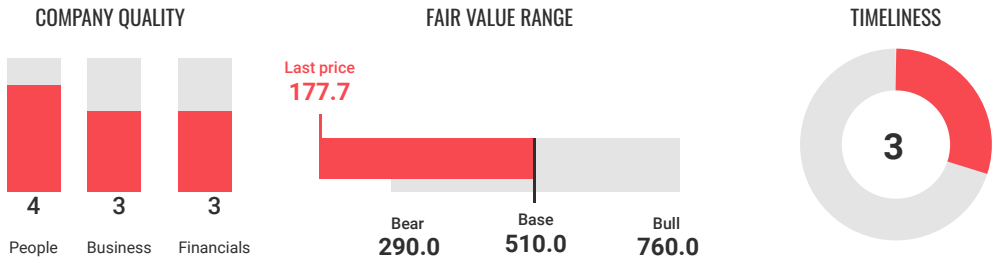
New Games and Channels
Signing more games and channels (mobile app stores) to its platform will always be a potential catalyst for the Flexion-stock.

G5 Entertainment G5EN

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

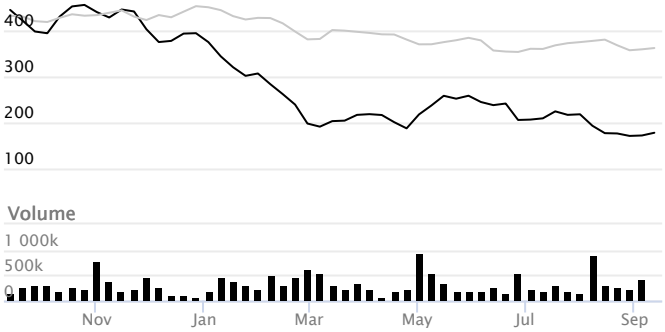
Publication date
September 15 2022

Redeye Rating



Snapshot

G5 Entertainment
OMXS30



Marketplace	NASDAQ Stockholm
CEO	Vladislav Suglobov
Chairman	Petter Nylander

Share information

Share price (SEK)	177.7
Number of shares (M)	9.0
Market cap (MSEK)	1,591
Net debt (2022E, MSEK)	-290

Analyst



Hjalmar Ahlberg
hjalmar.ahlberg@redeye.se

Conflict of interests

Hjalmar Ahlberg owns shares in G5 Entertainment: Yes

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

Financials

			Redeye Estimates		
	2020	2021	2022E	2023E	2024E
Revenue, MSEK	1,356	1,316	1,421	1,550	1,666
Growth	*10.0%*	*-3.0%*	*8.0%*	*9.1%*	*7.5%*
EBITDA	310	349	368	472	524
EBITDA margin	*22.9%*	*26.6%*	*25.9%*	*30.5%*	*31.5%*
EBIT	189	216	226	317	358
EBIT margin	*14.0%*	*16.4%*	*15.9%*	*20.5%*	*21.5%*
Pre-tax earnings	188	209	211	317	358
Net earnings	167	198	189	285	322
Net margin	*0.0%*	*0.0%*	*0.0%*	*0.0%*	*0.0%*
Dividend/Share	6.25	7.00	6.75	10.16	11.45
EPS adj.	19.29	23.47	24.27	33.86	38.18
P/E adj.	21.0	16.9	10.5	7.5	6.7
EV/S	2.5	2.4	1.3	1.1	0.9
EV/EBITDA	10.7	9.2	5.1	3.6	2.9

Last updated: 2022-05-10

Owner	Equity	Votes
G5 Entertainment AB (Publ)	7.3%	5.7%
Wide Development Ltd	6.4%	6.5%
Purple Wolf Ltd	5.5%	5.6%
Swedbank Robur Fonder	5.2%	5.3%
Tommy Svensk	4.4%	4.5%
Proxima Ltd	3.6%	3.6%

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, Kharkov, Ukraine, Poland, Georgia, Armenia and Montenegro. G5 has developed a business model that is both successful and scalable, which is reflected in the company's financial development.

Investment thesis

Case

Experienced free-to-play gaming group with strong position in its niche

G5 has a long history in gaming and since its foundation in 2001 it has created a strong position in its niche in the free-to-play gaming market. The company's games portfolio is mainly tilted towards Match-3, Solitaire, Hidden Object and Word games that are popular in its core customer group which are women in the age of 35 and above. With a clear target group, the company has built a strong knowledge of its users which gives it an advantage investing in user acquisition (UA). This has helped the company to launch several successful game franchises such as the Jewels family of games, Secret Society, Homicide Squad, Mahjong Journey, Sherlock and Hidden City (licensed game). Looking forward we expect the company to continue its growth journey supported by its existing games coupled with a growing portfolio of new games. Furthermore, the company's ongoing transition to a larger share of own games vs licensed games creates potential for margin improvement. Overall, we forecast that G5 will grow in line with the mobile gaming market with profit growing stronger than revenue.

Evidence

Solid growth in own games and improving profitability

While G5's overall growth has been muted since 2018 due to a transition to own games vs licensed games, its own games have seen solid growth with a CAGR 28% in 2018-21 (share of revenue increase from 28% to 73%). The company has also held its UA investments stable in line with its typical range at 18-22%, albeit with some quarterly variations depending on growth opportunities. Together with lower license costs due to a larger share of own games and lower platform costs this has yielded a margin expansion with an EBITDA-margin of 27% in 2021 vs 17% in 2018. The solid growth track record for its own games supports our view of continued growth and profitability improvement going forward.

Challenge

Highly competitive free-to-play games market

The key challenge for G5 to continue generate profitable growth in our view is the high competition in the free-to-play gaming market. Several games are launched each day and larger gaming groups has also increased its focus in the segment. However, with a niche focus where the company has established a market leading position, we believe the company is well placed vs competition.

Challenge

Valuation

Base case DCF supported by solid cash generation and margin expansion

We find a base case valuation of SEK540 per share for G5 which is derived from a DCF-valuation. The base case implies an EV/EBIT multiple of c. 14x on our 2023E EBIT while the share has historically traded in a range of 5x to 25x twelve months forward EBITDA. Our base case assumes growth of around 7% over 2023-27 and 4% over 2028-37 with a terminal growth of 2% by 2038E. We estimate an expanding EBITDA-margin reaching 33% by 2027E whereafter we assume a gradual decline towards a terminal EBITDA-margin of 25% by 2038E.

Catalyst types

Gross Margin Expansion

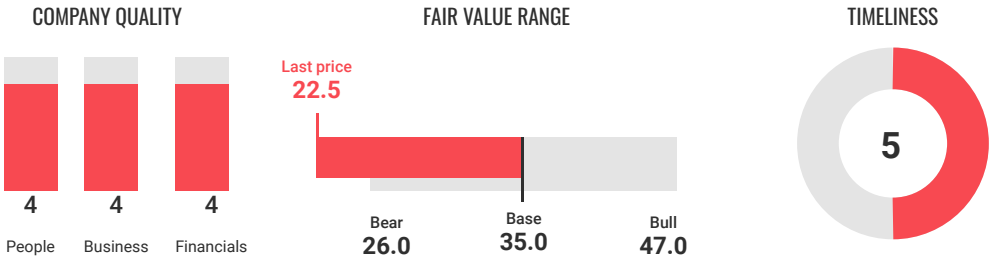
The financial development visible in the quarterly reports is one of the major catalysts for the stock going forward. We estimate G5 generate around 30% of its revenue from the Microsoft Store where the distribution fee recently (August 2021) was lowered from 30% to 12%. The majority of the portfolio is nowadays generated from own games (not licensed). These new generation of games are also the highest growing which will continue to boost gross margins.

M.O.B.A. Network MOBA

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

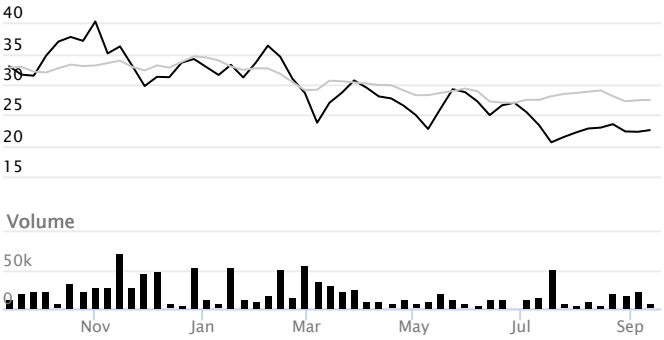
Publication date
September 16 2022

Redeye Rating



Snapshot

M.O.B.A. Network
OMXS30



Marketplace	First North Stockholm
CEO	Björn Mannerqvist
Chairman	Fredrik Burvall

Share information

Share price (SEK)	22.5
Number of shares (M)	22.7
Market cap (MSEK)	510
Net debt (2022E, MSEK)	-56

Analyst



Danesh Zare
danesh.zare@redeye.se

Conflict of interests

Danesh Zare owns shares in M.O.B.A. Network: No

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

Financials

	2020	2021	Redeye Estimates 2022E	2023E	2024E
Revenue, MSEK	33	200	315	343	371
Growth	*24.8%*	*>100%*	*57.6%*	*8.8%*	*8.3%*
EBITDA	14	25	45	55	63
EBITDA margin	*42.3%*	*13.0%*	*14.4%*	*16.3%*	*17.2%*
EBIT	12	23	40	50	57
EBIT margin	*37.1%*	*11.6%*	*13.0%*	*14.7%*	*15.4%*
Pre-tax earnings	12	21	38	48	55
Net earnings	7	15	31	37	43
Net margin	*22.5%*	*7.8%*	*10.1%*	*11.0%*	*11.7%*
Dividend/Share	0.00	3.56	2.47	2.72	0.00
EPS adj.	4.37	1.35	1.41	1.67	1.91
P/E adj.	4.5	26.0	19.7	16.6	14.6
EV/S	0.8	2.0	1.8	1.6	1.4
EV/EBITDA	1.8	15.4	12.6	9.8	8.0

Last updated: 2022-05-18

Owner	Equity	Votes
New Equity	23.0%	23.0%
Henrik Kvick	16.3%	16.3%
Jonas Bertilsson	10.6%	10.6%
Thomas Jansson	10.3%	10.3%
TIN Fonder	9.7%	9.7%
Alcur Fonder	9.6%	9.6%
Cloverhill Holdings Ltd	7.0%	7.0%
Wit Bank Julius Baer & co LTD	3.5%	3.5%
Björn Mannerqvist	2.4%	2.4%

Company description

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

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

Investment thesis

Case

Attractive exposure to the growing E-sport market

MOBA offers community sites and services for video creators in the E-sport market. The E-sport market is expected to grow by a CAGR of 22% until 2030, where ads and sponsorships are expected to represent the largest share of revenues. Furthermore, the community sites have a gross margin close to 75% and are very asset-light. The video services have a much lower gross margin, around 9%. However, we expect synergies and profitability measures to gradually improve the gross margin in this segment. Thus, we believe solid organic growth, scale effects, and synergies to enable a 21'24'e EBITDA CAGR of 34%.

Evidence

Growing interest in E-sports

The E-sports market has grown tremendously in the past years, and several large global giants are entering the field in order to capitalize on this growing market. MOBA has proven that it has a solid position within its communities, and its recent acquisition and new business segment diversify the revenue streams. MOBA is planning to release several new community sites during the year due to the growing interest, which should support organic growth.

Challenge

E-sport market still struggles with monetization

Despite the massive underlying growth, few players in the field are profitable. This has been one of the issues across the industry. The revenue per visitor is much lower in the E-sports industry than in other sports and entertainment segments. Thus, the monetization issue with the E-sport market could dampen future growth and hold back profitability.

Challenge

Valuation

Highly cash generative business

We forecast a 21-24'e sales and EBITDA CAGR of 22%-34%, respectively, driven by solid market outlook, scalability, and synergy effects from its recent acquisitions. At our base case, MOBA would trade at 15x EBIT(23'e).

Catalyst types

Recovery of programmatic sales

The COVID-19 pandemic has negatively impacted programmatic sales. The company has been able to mitigate this impact by increasing direct sales. However, we believe that programmatic sales will quickly recover post-COVID-19, which will help boost M.O.B.A.´s growth.

Expansion of the services

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

Potential target

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

Acquisitions

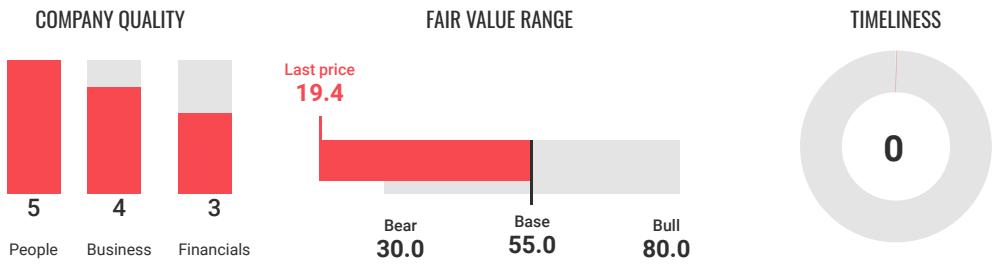
M.O.B.A. has a clear M&A strategy and have started to execute on this strategy with the acquisition of MMORPG.com. The company also benefits from extensive experience in adding value via M&A in the Board (Fredrik Burvall, Jonas Bertilsson, and Maria Andersson Grimaldi) and the CEO. Delivering on the M&A strategy will allow the company to accelerate growth by taking advantage of its strong financial position and add value to the group.

Media and Games Inves... M8G

Company page
https://www.redeye.se/company/media-and-games-invest

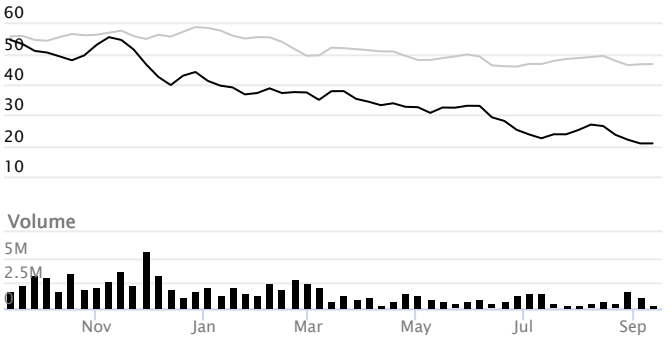
Publication date
September 16 2022

Redeye Rating



Snapshot

Media and Games Invest
OMXS30



Marketplace	First North Stockholm
CEO	Remco Westermann
Chairman	Remco Westermann

Share information

Share price (SEK)	19.4
Number of shares (M)	159.2
Market cap (MSEK)	3,087
Net debt (2022E, MEUR)	291

Analyst



Danesh Zare
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Conflict of interests

Danesh Zare owns shares in Media and Games Invest: Yes

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

Financials

	2020	2021	Redeye Estimates 2022E	2023E	2024E
Revenue, MEUR	140	252	310	347	382
Growth	*67.3%*	*79.9%*	*22.8%*	*12.1%*	*10.0%*
EBITDA	26	65	85	99	113
EBITDA margin	*18.9%*	*25.8%*	*27.7%*	*28.6%*	*29.7%*
EBIT	11	36	52	63	77
EBIT margin	*7.9%*	*14.6%*	*16.9%*	*18.4%*	*20.2%*
Pre-tax earnings	3	14	22	32	47
Net earnings	2	16	16	24	39
Net margin	*1.9%*	*6.4%*	*5.5%*	*7.1%*	*10.3%*
Dividend/Share	0.00	0.00	0.00	0.00	0.00
EPS adj.	0.11	0.23	0.20	0.25	0.32
P/E adj.	195.7	200.7	114.3	94.0	73.4
EV/S	1.6	3.3	2.0	1.8	1.5
EV/EBITDA	8.4	12.8	7.4	6.2	5.1

Last updated: 2022-09-15

Owner	Equity	Votes
Germany Branch, Caceis Bank	38.0%	38.0%
Remco Westermann	27.8%	27.8%
Oaktree Capital Management LP	9.1%	9.1%
Janus Henderson Investors	4.0%	4.0%
HSBC Bank Plc	1.6%	1.6%
BNP Paribas Sec Serv Luxembourg	1.5%	1.5%
Avanza Pension	1.5%	1.5%
UBS Switzerland AG	1.4%	1.4%
Nordnet Pensionsförsäkring	1.1%	1.1%
State Street Bank And Trust co	1.1%	1.1%

Company description

Media and Games Invest SE is a digitally integrated games and media company with main operational presence in Europe and North America. The company combines organic growth with value-generating synergetic acquisitions, demonstrating continuous strong, profitable growth with a revenue CAGR of 69% (2018 – LTM Q2'22). Next to strong organic growth, the MGI Group has successfully acquired more than 30 companies and assets in the past 6 years. The acquired assets and companies are in tegrated and amongst others cloud technology is actively used to achieve efficiency gains and competitive advantages.

Investment thesis

Case

A leading ad-software platform with synergies

MGI is a leading ad-software platform enabling monetization and user acquisition for app and content developers. MGI operates in two subsegments games and media, of which the combined market is expected to grow in excess of 10% in the coming years. Furthermore, the two subsegments enable large synergies as the games could make its UA more efficient while the media platform retains a higher share of the spending. Furthermore, the games could maximize their ad revenues which come at almost 100% gross margins. In contrast, the media segment could leverage access to first-party data. Thereby, enhancing advertisers' targeting, which makes the platform more competitive. Leading the gain of market share, scale effects, and substantial network effects. We forecast a 21-24'e Adj EBITA CAGR of 21%.

Evidence

Proven scalability

MGI has transformed its business into a leading ad-software platform. In 2021, the number of ad impressions reached ~180 billion, up almost 4x compared to 2020. This is driven by innovative services that cover the customer's entire value chain. Leading to gained market share. Furthermore, the media segment's EBITDA margin increased to 24% in 2021, up from 10% in 2020. Illustrating the scalable business model.

Challenge

IDFA implementations reduces market activity

Apple's recent IDFA identifier made it harder for advertisers and game publishers to attract consumers and players. Google is planning to implement a similar standard where similar challenges could occur. Thus, this could lead to a market slowdown where MGI's innovative solutions would not materialize in any returns.

Challenge

Valuation

The media segment should drive the multiple expansion

We forecast a 21-24'e sales and adj EBITA CAGR of 16-21%, respectively. At our base case, MGI trades at 15x EV/adj EBITA.

Catalyst types

MGI continues to be a successful gaming consolidator

MGI has carried out over 30 acquisitions and to great effect. The operational results show that the strategy is working and that the acquisitions, overall, are value-accretive. MGI has an outspoken M&A strategy and there is more to come.

Synergies across the portfolio

MGI has a history of integrating and improving purchased assets, KingsIsle and Smaato should be no different. There is potential for reaching synergies across its two-segment which will enhance earnings.

Organic growth

There is a lot of potential for organic growth within MGI's gaming portfolio through localization and porting (cross-platform). MGI already pursues this today but there are more opportunities for this in the future.

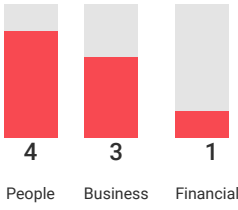
Nitro Games NITRO

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

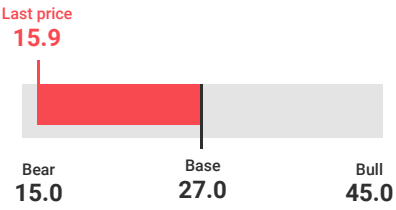
Publication date
September 16 2022

Redeye Rating

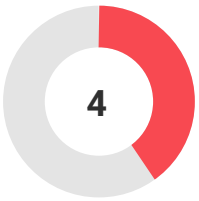
COMPANY QUALITY



FAIR VALUE RANGE

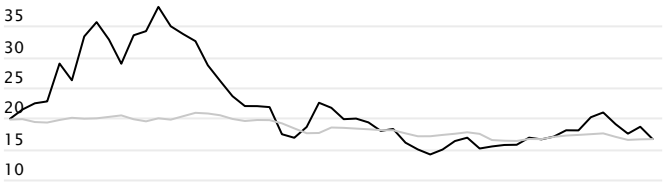


TIMELINESS



Snapshot

Nitro Games
OMXS30





Marketplace	First North Stockholm
CEO	Jussi Tähtinen
Chairman	Johan Biehl

Share information

Share price (SEK)	15.9
Number of shares (M)	12.9
Market cap (MSEK)	205
Net debt (2022E, MEUR)	-1

Analyst



Danesh Zare
danesh.zare@redeye.se

Conflict of interests

Danesh Zare owns shares in Nitro Games: No

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

Financials

	21/22	22/23E	Redeye Estimates 23/24E	24/25E
Revenue, MEUR	3	8	13	17
Growth	*>100%*	*>100%*	*52.9%*	*36.1%*
EBITDA	-2	0	1	2
EBITDA margin	*Neg*	*Neg*	*8.1%*	*15.1%*
EBIT	-2	-1	0	1
EBIT margin	*Neg*	*Neg*	*Neg*	*7.1%*
Pre-tax earnings	-2	-1	0	1
Net earnings	-2	-1	0	0
Net margin	*Neg*	*Neg*	*Neg*	*5.6%*
Dividend/Share	0.00	0.00	0.00	0.00
EPS adj.	-0.23	-0.14	-0.02	0.08
P/E adj.	-13.9	-10.5	-69.7	19.2
EV/S	12.1	2.3	1.5	0.9
EV/EBITDA	-13.7	-21.6	18.1	5.6

Last updated: 2022-07-01

Owner	Equity	Votes
Egmont Holding Oy	50.4%	50.4%
SEB AB, LUXEMBOURG BRANCH	6.2%	6.2%
Avanza Pension	4.6%	4.6%
Coeli AB	3.6%	3.6%
Ludvig Strigéus	2.6%	2.6%
Nordnet Pensionsförsäkring	2.3%	2.3%
Feat Invest AB	1.7%	1.7%
Markus Johansson	1.6%	1.6%
Barbara Rubinstein	1.4%	1.4%
Zakaria Rtel Bennani	1.3%	1.3%

Company description

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

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

Investment case

- During the production phase, Nitro games receive milestones that provide stable cash flows at healthy margins and earn the right to a revenue share upon commercialization. This offers limited risk and potential optionality in terms of commercialization success.
- Nitro Games' partnerships with Hasbro and Snap illustrate that Nitro is a high-quality mobile game developer in its core market. Hasbro has ~40 million subscribers on its YouTube channel, while Snap has ~320m DAU. These strong brands mitigate marketing costs.
- Nitro Game is entirely focused on the FPS market for mobile games, a niche market. Operating in a niece market attracts less competition. Furthermore, the mobile market is fast-growing and estimated to be worth $121 billion in 2021, mainly driven by higher adoption rates.

B2B segment provides healthy cash flow

One of Nitro Games' business segments is its work-for-hire development, which indicates that it is developing games for external publishers. During the production phase, Nitro games receive milestones that provide stable cash flows at healthy margins and earn the right to a revenue share upon commercialization. This offers limited risk and potential optionality in terms of commercialization success.

Strong partnerships

Nitro Games' partnerships with Hasbro and Snap illustrate that Nitro is a high-quality mobile game developer in its core market. Hasbro has ~40 million subscribers on its YouTube channel, while Snap has ~320m DAU. These strong brands mitigate marketing costs as the game should benefit from the existing user base. Furthermore, the game development is partly financed by Snap and Hasbro, suggesting decent ROI on its investments.

Structurally growing market

Nitro Game is entirely focused on the FPS market for mobile games, a niche market. Operating in a niece market attracts less competition. Furthermore, the mobile market is fast-growing and estimated to be worth $121 billion in 2021, mainly driven by higher adoption rates.

Catalyst types

New B2B orders

Earlier this year, it received its biggest order value yet from Super massive Games, valued at EUR 2.8m. New orders in the same magnitude could be a great catalyst. More importantly, it will provide visible cash flow at healthy margins.

Good receiption from Snap's platform

Strong reception from Snap's platform regarding its upcoming games could boost. Snap games platform is growing rapidly and has a massive user base. If one or several games are successful, this could be a massive contribution financially.

An Obvious Takeover Target

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

Lootland soft-launch

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

New Publishing Agreements

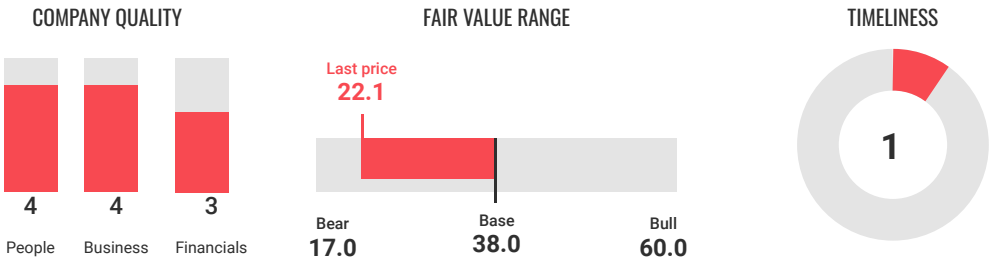
Netmarble and Nitro Games have signed two publishing agreements for both Medals of War and Heroes of Warland in the Middle-East and Africa . The first publishing deal generated an initial revenue of EUR 0.2 million and the second one generated EUR 0.5 million for Nitro Games. A potential catalyst for the stock is of course if new publishing deals for newly self-developed games would be signed.

Remedy Entertainment REMEDY

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

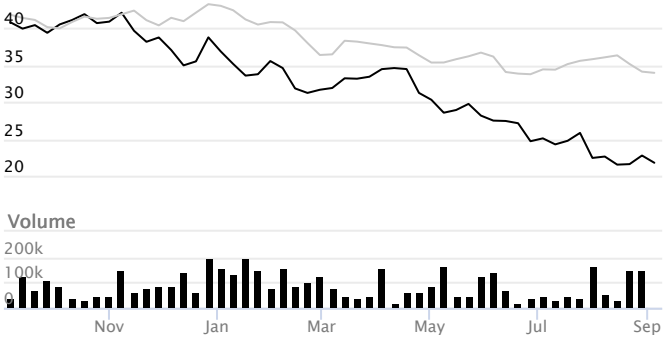
Publication date
September 8 2022

Redeye Rating



Snapshot

Remedy Entertainment
OMXS30



Marketplace	NASDAQ Helsinki
CEO	Tero Virtala
Chairman	Markus Mäki

Share information

Share price (EUR)	22.1
Number of shares (M)	13.3
Market cap (MEUR)	293
Net debt (2022E, MEUR)	-36

Analyst



Tomas Otterbeck
tomas.otterbeck@redeye.se

Conflict of interests

Tomas Otterbeck owns shares in Remedy Entertainment: Yes

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

Financials

	20/21	21/22	Redeye Estimates 22/23E	23/24E	24/25E
Revenue, MEUR	41	45	45	52	71
Growth	*29.9%*	*8.8%*	*0.5%*	*14.7%*	*37.8%*
EBITDA	14	13	-1	5	20
EBITDA margin	*34.9%*	*30.5%*	*Neg*	*11.0%*	*29.2%*
EBIT	13	12	-3	3	17
EBIT margin	*32.1%*	*27.5%*	*Neg*	*7.0%*	*24.4%*
Pre-tax earnings	13	12	-3	3	17
Net earnings	13	10	-3	2	13
Net margin	*32.1%*	*22.5%*	*Neg*	*5.6%*	*19.5%*
Dividend/Share	0.15	0.17	-0.05	0.04	0.21
EPS adj.	1.09	0.76	-0.24	0.22	1.04
P/E adj.	35.7	52.4	-95.4	105.7	22.1
EV/S	10.9	10.3	5.8	5.2	3.8
EV/EBITDA	31.4	33.9	-172.4	47.3	13.1

Last updated: 2022-08-12

Owner	Equity	Votes
Markus Mäki	24.0%	24.0%
Accendo Capital	14.0%	14.0%
Sami Järvi	4.2%	4.2%
Tencent	3.8%	3.8%
Working Capital Management Pte Ltd	3.4%	3.4%
Tero Virtala	2.3%	2.3%
Saku Lehtinen	1.8%	1.8%
Evli Fonder	1.8%	1.8%

Company description

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

In 2016, 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.

Investment thesis

Case

De-risked high quality

Remedy is one of the last legendary independent game studios left in the world. The founder and top management own more than 30% of the company. The biggest gaming platforms are screaming for quality content and Remedy will continue to grasp this opportunity. The studio has therefore a lucrative risk-reward in its coming projects and is an obvious takeover target that de-risk the case further.

Evidence

An "Epic" release in 2023

In 2023 Alan Wake 2 will be released, Remedy's strongest self-owned IP. We expect the total budget is approximately EUR 60 million (in comparison to the game Control with a budget of EUR 30 million). The higher budget, the financially strong publisher Epic Games, and the strength from the Alan Wake IP are three strong arguments that the game will likely sell at least twice as much as the game Control. For these reasons, we believe investors should have high expectations of the company's growth prospects.

Challenge

A big budget for a niched game

Remedy creates relatively niched games. In its upcoming game (Alan Wake 2), which will be released in 2023 the budget is double as high as in its latest game. We estimate the game must sell 2.15 million copies before Remedy can receive a 50% profit share. For a relative niche product, this is a rather high sales number.

Challenge

Uncertain profitability in 2025

In 2024-2025 Remedy will launch two online multiplayer games according to our assumptions. This is new territory for Remedy and at least one of the games (Vanguard) will be free-to-play. The immediate financial impact will therefore likely be protracted, meaning lower revenue for a longer period of time for both of these live-service games. This could hurt the profitability in 2025 according to our estimates regarding the game pipeline.

Valuation

An obvious takeover target

Only a few independent major game studios are left after the recent years accelerated consolidation in the industry. We are certain that Remedy has a high position in the shopping list amongst many major players. Potential buyers are Epic Games, Sony, Microsoft, and Take-Two Interactive we believe. This fact considerably de-risks an investment in Remedy we argue despite the relatively high valuation multiples in a short-term perspective.

Catalyst types

Alan Wake 2 is a major release

In its upcoming game (Alan Wake 2), which will be released in 2023 the budget is double as high as in its latest game called Control. We estimate the game must sell 2.15 million copies before Remedy can receive a 50% profit share. The game will start to generate royalty income in 2023 according to our assumptions. A better outcome would likely have a positive impact on the stock we believe.

Remedy is possibly acquired in 2023-2024

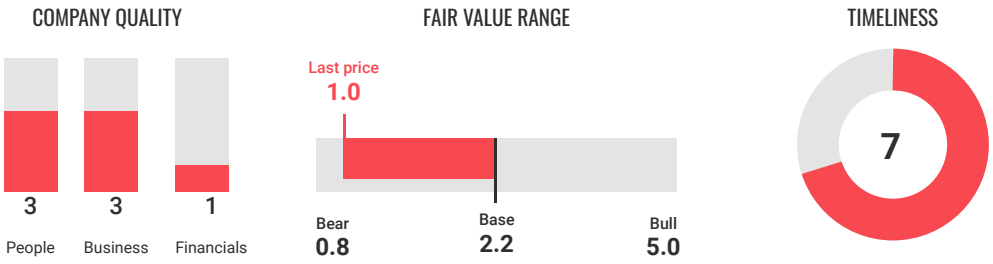
We believe Remedy is one of the most obvious acquisition targets in the Nordic gaming industry. On the top of our buyer's list sits Epic Games, and the timing is most likely after the release of Alan Wake 2. Secondly "most likely" we believe one of the three biggest players in the industry is a potential buyer namely Sony, Tencent, and Microsoft (in that order). Thirdly on our buyer's list, we see Take-Two, the owner of the Remedy-created IP Max Payne.

Starbreeze STAR B

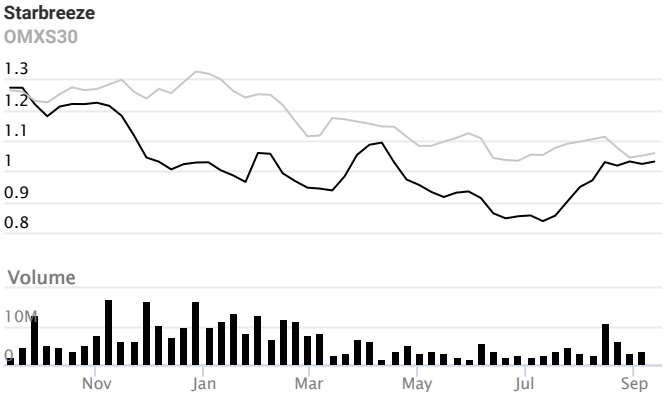
Company page
https://www.redeye.se/company/starbreeze

Publication date
September 15 2022

Redeye Rating



Snapshot



Marketplace	NASDAQ Stockholm
CEO	Tobias Sjögren
Chairman	Torgny Hellström

Share information

Share price (SEK)	1.0
Number of shares (M)	724.6
Market cap (MSEK)	728
Net debt (2022E, MSEK)	389

Analyst



Tomas Otterbeck
tomas.otterbeck@redeye.se

Conflict of interests

Tomas Otterbeck owns shares in Starbreeze: Yes

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

Financials

			Redeye Estimates		
	20/21	**21/22**	**22/23E**	**23/24E**	**24/25E**
Revenue, MSEK	118	126	102	974	674
Growth	*-57.9%*	*6.6%*	*-19.2%*	*>100%*	*-30.8%*
EBITDA	49	6	39	357	142
EBITDA margin	*41.8%*	*5.0%*	*38.7%*	*36.7%*	*21.1%*
EBIT	-16	-53	-18	286	18
EBIT margin	*Neg*	*Neg*	*Neg*	*29.5%*	*2.8%*
Pre-tax earnings	-151	-103	-74	258	6
Net earnings	-151	-100	-74	258	10
Net margin	*Neg*	*Neg*	*Neg*	*26.5%*	*1.6%*
Dividend/Share	0.00	-0.07	-0.05	0.18	0.01
EPS adj.	-0.21	-0.14	-0.10	0.36	0.01
P/E adj.	-5.2	-7.2	-9.1	2.6	62.7
EV/S	7.8	7.1	10.5	0.8	1.1
EV/EBITDA	18.8	141.8	27.2	2.1	5.3

Last updated: 2022-08-18

Owner	Equity	Votes
Swedbank Robur Fonder	14.8%	13.1%
Digital Bros	12.0%	28.9%
Första AP-fonden	10.2%	9.6%
Avanza Pension	5.7%	3.2%
Fjärde AP-fonden	3.1%	9.6%
Nordnet Pensionsförsäkring	2.3%	1.1%
Swedbank Försäkring	1.1%	0.5%

Company description

Starbreeze is an independent developer & creator of PC and console games targeting the global market, with studios in Stockholm, Barcelona and Paris. Housing the smash hit IP PAYDAY, Starbreeze develops games based on proprietary and third-party rights, both in-house and in partnership with external game developers.

Investment case

- Masters of "Game as a Service"
- Payday-brand Equals the Market Cap in Starbreeze
- Payday 3 Shapes the Future

Masters of "Game as a Service"
Payday 2 has generated net revenues of SEK 1.1 billion to Starbreeze in less than eight years. An interesting aspect is that Payday 2 brought in "only" SEK 120 million in net income during the initial period after launch (in this case four and a half months) which shows how well Starbreeze manages the business model "Game as a Service". Payday 2 has since release (2013) generated SEK 25-35 million on a quarterly basis.

Payday-brand Equals the Market Cap in Starbreeze
Payday 2 has over 7.5 million members on Steam and the number of members is still growing steadily. In the past year, the game has had 40-45,000 simultaneous daily players on average. Monthly active users are more than 1 million and generated revenue from the game is close to all-time highs "post-release". Currently, we believe the market cap of Starbreeze can be broadly equated with the value of the Payday brand.

Payday 3 Shapes the Future
Payday 3 will be released in 2023. Unlike its predecessor, it will be a multi-platform release which is expected to increase sales. Other significant drivers for higher sales are the brand's increased strength since 2013, a higher development and marketing budget, and a significantly larger gaming market. When all direct costs are taken, we expect Payday 3 to give a gross profit of approx. SEK 400 million in 2023. If Starbreeze manages to maintain high recurring revenue in the coming years after launch it will create significant shareholder value.

Catalyst types

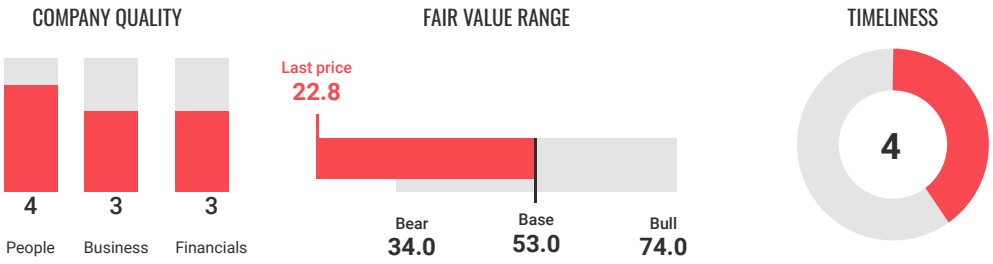
The release of Payday 3 in 2023
Payday 3 will be released on more platforms than PC already at release unlike its predecessor which is expected to increase sales. Other significant drivers for higher sales are the brand's increased strength since 2013, a higher development and marketing budget, and a significantly larger gaming market. When all direct costs are taken, we expect Payday 3 to give a gross profit of approx. SEK 400 million in 2023.

Stillfront Group SF

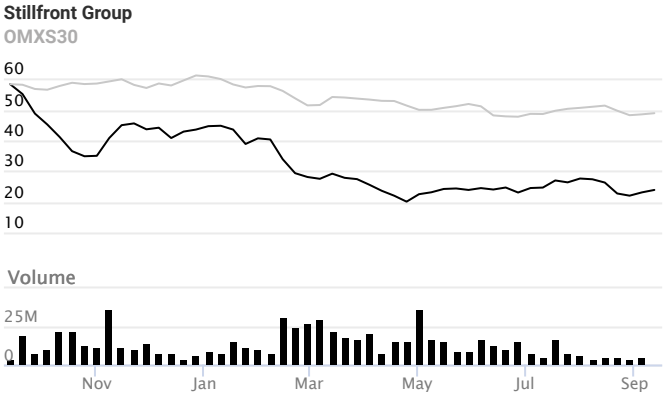
Company page
https://www.redeye.se/company/stillfront-group

Publication date
September 15 2022

Redeye Rating



Snapshot



Marketplace	NASDAQ Stockholm
CEO	Jörgen Larsson
Chairman	Jan Samuelson

Share information

Share price (SEK)	22.8
Number of shares (M)	511.2
Market cap (MSEK)	11,635
Net debt (2022E, MSEK)	2,496

Analyst



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Conflict of interests

Hjalmar Ahlberg 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

	2020	2021	Redeye Estimates 2022E	2023E	2024E
Revenue, MSEK	3,990	5,456	7,011	7,497	8,050
Growth	*>100%*	*36.7%*	*28.5%*	*6.9%*	*7.4%*
EBITDA	1,695	2,125	2,555	2,833	3,109
EBITDA margin	*42.5%*	*38.9%*	*36.4%*	*37.8%*	*38.6%*
EBIT	1,493	1,804	2,014	2,262	2,500
EBIT margin	*37.4%*	*33.1%*	*28.7%*	*30.2%*	*31.1%*
Pre-tax earnings	799	794	775	1,118	1,356
Net earnings	580	597	559	838	1,017
Net margin	*0.0%*	*0.0%*	*0.0%*	*0.0%*	*0.0%*
Dividend/Share	0.00	0.00	0.00	0.00	0.00
EPS adj.	3.12	3.53	2.97	3.52	3.87
P/E adj.	32.1	13.7	7.4	6.3	5.7
EV/S	9.1	4.0	1.9	1.6	1.3
EV/EBITDA	21.5	10.4	5.3	4.3	3.4

Last updated: 2022-07-25

Owner	Equity	Votes
Laureus Capital GmbH	11.9%	11.9%
Swedbank Robur Fonder	7.5%	7.5%
Första AP-fonden	5.8%	5.8%
JP Morgan Chase Bank NA	5.6%	5.6%
SEB	4.5%	4.5%
DNB Fonder	4.2%	4.2%
SEB Fonder	3.7%	3.7%
State Street Bank And Trust co	3.3%	3.3%
Columbia Threadneedle	3.1%	3.1%
Vanguard	2.9%	2.9%

Company description

Stillfront is a leading free-to-play powerhouse that has grown substantially over the past years through acquisitions and organically. The majority of revenue is derived from mobile games coming from in-app purchases while a smaller part of revenue comes from advertising. The game portfolio is evenly split between strategy, RPG/simulation and casual games.

Investment thesis

Case

Diversified gaming portfolio with focus on high return on UA investments

We believe Stillfront has an attractive and diverse gaming portfolio with a large number of games focusing on several different genres creating a low dependence on individual games. Coupled with a focus on strong returns on user acquisition we believe the company is well positioned to deliver profitable growth over the coming years. With a highly fragmented gaming market, the company is also likely to continue growing by M&A albeit with smaller impact than historically due to its increased size. Overall, this should yield continued earnings growth in Stillfront supporting our positive view on the company.

Evidence

Solid profitability and cash generation supports business model

Stillfront's focus on directing UA investments to the games and channels that yields best returns are seen in its solid profitability and cash generation. With EBITDA-margins of around 35-40% the company has higher profitability than free-top-play sector peers. With a focus on long-life games it also has limited investment requirements which can be seen in a solid cash conversion (historically around 40-50% FCF/EBITDA excluding acquisitions).

Challenge

High competition for M&A and mixed track record

Stillfront has mainly grown its business through M&A having carried through more than 20 acquisitions since 2016. While most acquisitions have been done at attractive valuations and performed well, there are examples of weaker performance as well as high valuations which creates uncertainty of the potential for future M&A. High valuations are also an indication of another challenge for Stillfront where competitors also aim to consolidate the industry creating upwards pressure on valuations which also lowers the potential returns from M&A.

Challenge

Valuation

Base case DCF supported by strong profitability and cash generation

We find a base case valuation of SEK53 per share Stillfront which is derived from a DCF-valuation. The base case implies an EV/EBITDA multiple of 12x on our 2023E EBITDA while the share has historically traded in a range of 8x to 15x twelve months forward EBITDA. Our base case assumes growth of 7% between 2022-27E and 4% between 2028-37E which is slightly lower than the overall gaming market. We assume profitability in line with the company's target of 35% EBIT-margin for the majority of the forecast period and 30% for the terminal period.

Catalyst types

M&A growth

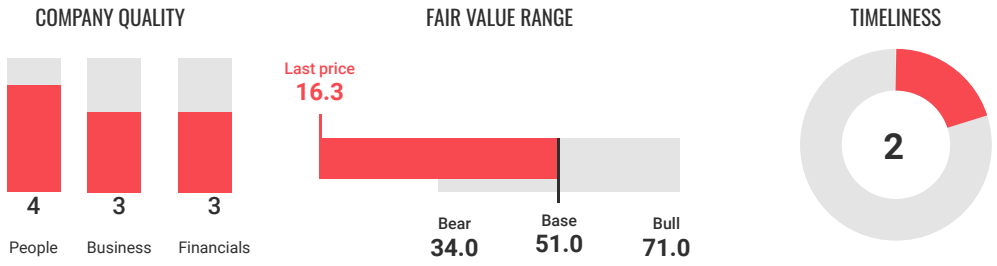
Stillfront is likely to continue to add inorganic growth with both small and large acquisitions with potential to create shareholder value.

Thunderful Group THUNDR

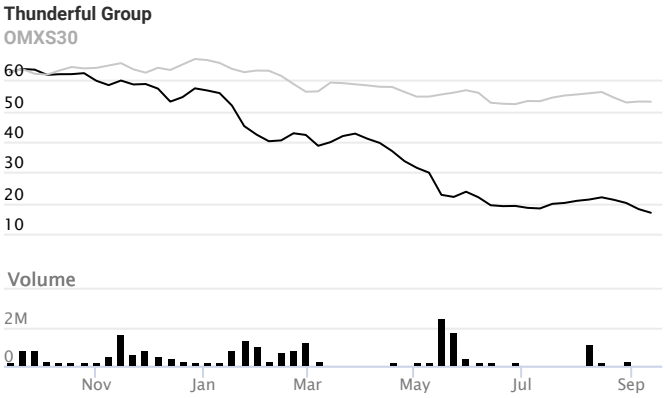
Company page
https://www.redeye.se/company/thunderful-group

Publication date
September 17 2022

Redeye Rating



Snapshot



Marketplace	First North Stockholm
CEO	Brjann Sigurgeirsson
Chairman	Mats Lönnqvist

Share information

Share price (SEK)	16.3
Number of shares (M)	70.3
Market cap (MSEK)	1,147
Net debt (2022E, MSEK)	448

Analyst



Danesh Zare
danesh.zare@redeye.se

Conflict of interests

Danesh Zare owns shares in Thunderful Group: Yes

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

Financials

			Redeye Estimates		
	2020	**2021**	**2022E**	**2023E**	**2024E**
Revenue, MSEK	3,082	3,141	3,191	3,397	3,563
Growth	*48.4%*	*1.9%*	*1.6%*	*6.4%*	*4.9%*
EBITDA	276	335	350	457	504
EBITDA margin	*9.0%*	*10.7%*	*11.0%*	*13.5%*	*14.2%*
EBIT	214	208	161	294	333
EBIT margin	*7.0%*	*6.6%*	*5.1%*	*8.7%*	*9.4%*
Pre-tax earnings	170	168	118	279	323
Net earnings	134	132	84	220	255
Net margin	*4.4%*	*4.2%*	*2.6%*	*6.5%*	*7.2%*
Dividend/Share	0.00	0.00	0.00	0.00	0.00
EPS adj.	2.59	2.88	2.42	4.00	4.48
P/E adj.	31.4	30.5	16.7	6.4	5.5
EV/S	-0.1	1.5	0.6	0.5	0.4
EV/EBITDA	-0.7	14.0	5.3	3.7	2.9

Last updated: 2022-08-11

Owner	**Equity**	**Votes**
Bergsala Holding AB	25.1%	25.1%
Swedbank Robur Fonder	8.2%	8.2%
Brjann Sigurgeirsson	6.2%	6.2%
Klaus Lyngeled	6.1%	6.1%
ODIN Fonder	4.4%	4.4%
Knutsson Holdings AB	3.1%	3.1%
ÖstVäst Capital Management	2.4%	2.4%

Company description

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

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

Investment thesis

Case

Organic growth at low risk

Thunderful games has a solid pipeline of games and built a strong network with platform owners. Thus, we believe Thunderful games will be managed to grow sales by 25% YoY and reach EBIT margins in excess of 30% in the medium term. Large investments are made to capitalize on future opportunities, which should be bolstered by newly released premium games and attractive exposure to the VR market. Additionally, the distribution unit's market position within its respective niece provides healthy cash flows. This could be reinvested into the games segment. Thus, we gradually expect the game's ratio of sales and earnings to grow. Leading to higher margins and, in our opinion, a higher motivated multiple for the company. We forecast Adj EBITA to reach SEK 457m in 2024, equivalent to a CAGR of 15%.

Evidence

Long history of game development and distribution

Thunderful's internal development studios have long experience in creating successful games. Its high-quality development capacity has enabled platform deals with Meta, EA, and Microsoft. This reduces the game segment's risk as it provides stable cash flow at high margins. Bergsala has had a relationship with Nintendo since 1981 and has been one of Nintendo's best-performing markets across Europe.

Challenge

Limited M&A experience and poor reception from latest game releases

Thunderful's latest internal game releases have received a poor reception from users and have not lived up to expectations. While this is clearly negative for the investment case, we still believe the key upcoming internal games deserved a chance as the other ones were developed and financed by external publishers. Thunderful made three acquisitions last year, and it still remains to be seen how good the capital allocation is.

Challenge

Valuation

Multiple expansion expected

We derive our base case on the back of a DCF model, blended with an earnings multiple approach. We apply an EV/EBITA multiple of 16x for games, and 6x for distribution. All in all, the weighted multiple should increase going forward as games become larger in terms of the entire group.

Catalyst types

Investments into Games begin to bear fruit

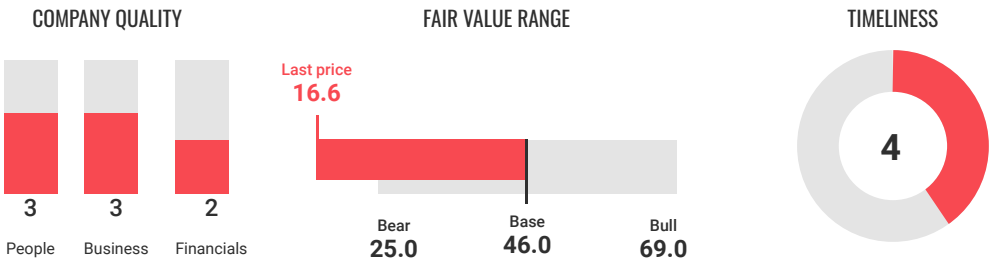
Upcoming game launches have a high degree of optionality, accelerating the margin mix we already have forecasted. The growing games portfolio increases the likelihood of a big hit. The Company is investing in larger games as well as increasing the number of games in its portfolio. Currently, Thunderful has 14 internally developed games in its portfolio and 29 externally developed games.

Zordix ZORDIX B

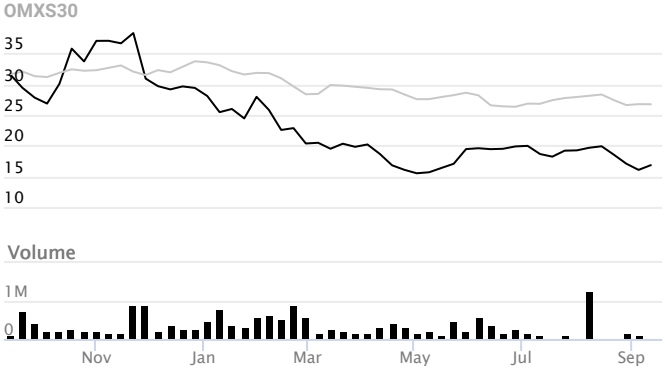
Company page
https://www.redeye.se/company/zordix

Publication date
September 19 2022

Redeye Rating



Snapshot



Marketplace	First North Stockholm
CEO	Christina Seelye
Chairman	Stefan Lindeberg

Share information

Share price (SEK)	16.6
Number of shares (M)	42.9
Market cap (MSEK)	711
Net debt (2022E, MSEK)	-53

Analyst



Hjalmar Ahlberg
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Conflict of interests

Hjalmar Ahlberg owns shares in Zordix: Yes

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

Financials

			Redeye Estimates	
	2021	2022E	2023E	2024E
Revenue, MSEK	465	1,266	1,486	1,671
Growth	*>100%*	*>100%*	*17.4%*	*12.5%*
EBITDA	71	158	226	270
EBITDA margin	*15.4%*	*12.5%*	*15.3%*	*16.2%*
EBIT	50	118	167	203
EBIT margin	*10.9%*	*9.4%*	*11.3%*	*12.2%*
Pre-tax earnings	17	28	57	93
Net earnings	2	16	46	74
Net margin	*0.5%*	*1.3%*	*3.1%*	*4.5%*
Dividend/Share	0.00	0.00	0.00	0.00
EPS adj.	0.92	2.52	3.09	3.76
P/E adj.	31.6	6.6	5.4	4.4
EV/S	2.4	0.5	0.3	0.2
EV/EBITDA	15.8	4.2	2.1	1.3

Last updated: 2022-09-19

Owner	Equity	Votes
Matti Larsson	12.0%	39.9%
Avanza Pension	7.1%	7.1%
Christina Seelye	6.4%	6.4%
Pershing Llc.	6.4%	6.4%
Prioritet Finans	4.2%	4.2%
Knutsson Holdings AB	3.5%	3.5%
W-8imy Caceis Bank	3.3%	3.3%
Philippe Cohen	3.0%	3.0%
(Gcs) BNP Paribas Sec Services Paris	3.2%	3.2%
Svensk, Filial Alandsbanken Abp (Finland)	2.9%	2.9%

Company description

Zordix started out as a game studio focused on publishing and work-for-hire projects which historically has been most known for its racing games Aqua Moto Racing Utopia and Snow Moto Racing Freedom. It has since then evolved through acquisitions and today, Zordix is a multinational developer, publisher, and distributor of games. The company has a strategy to acquire companies across the whole value chain of the games market, everything from game development to publishing and distribution. While the company has a long history, having been founded in 2009, most of its current revenue is generated by the acquisitions of Merge Games, Just for Games and Maximum Games carried through in 2021.

Investment thesis

Case

Growth focused gaming group active in the whole value chain

Zordix is in the early stage of a new growth phase after concluding three large acquisitions, Merge Games, Just for Games and Maximum Games in 2021. With the acquisitions Zordix has built a sizable gaming group generating solid cash flow as well as a network for further M&A-driven growth. This follows the revamp of the company's strategy in 2019, with an increased long-term focus on in-house IPs and publishing to control the full value chain. One of Zordix's unique propositions versus other gaming companies focused on M&A-driven growth is that Zordix targets the whole value chain. We consider this positive since it increases the universe of potential acquisitions and diminishes the competition for the targets. Finally, the company also has a strong game pipeline which can support improving profitability if the game releases are successful. Overall, we consider Zordix organic and M&A-based growth prospects attractive which supports our view of topline growth and margin expansion going forward.

Evidence

Well diversified low risk gaming portfolio and motivated management team

Zordix has a broad gaming portfolio consisting of more than 300 games where the largest represent around 5% of sales. With a focus on AA games that has much lower budgets than AAA games the dependence on success for individual games is low. Furthermore, the company's revenue is also geographically diversified coming mainly from North America and Europe and small share from South America and RoW. Finally, the company's management team are also highly motivated with the CEO Christina Seelye holding around 10% of shares while the founder Matti Larsson holds around 12% of shares.

Challenge

Highly competitive market

We believe the main challenge for Zordix is the high competition seen in the gaming market with several games released each day. However, the company's niche focus on the AA segment which is underserved means the company is well positioned in our view. Furthermore, as the company controls the whole value chain this helps the company to promote its games vs competition.

Challenge

Valuation

Base case DCF supported low risk stable revenue and solid cash generation

We find a base case valuation of SEK48 per share for Zordix which is derived from a DCF-valuation. The base case implies an EV/EBITDA multiple of 11x on our 2023E EBITDA. Our base case assumes growth of 11% between 2022-27E and 5% between 2028-37E with a terminal growth of 2%. We assume a margin expansion to around 20% by 2027 which gradually declines to 15% in the terminal period.

Catalyst types

Growth from in-house games

Zordix has a growing game portfolio of own IP's with a handful of games for which we see substantial growth potential in our positive scenarios. One of the most exciting is Smalland, which is expected to launch in early access soon, followed by a full release in 2022. Another IP with strong potential is Bramble, which has generated a positive reception in early glimpses and has a similar potential revenue contribution. Finally, the acquisition of Maximum Games has added additional potential with around 15 games in its pipeline.

DISCLAIMER

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