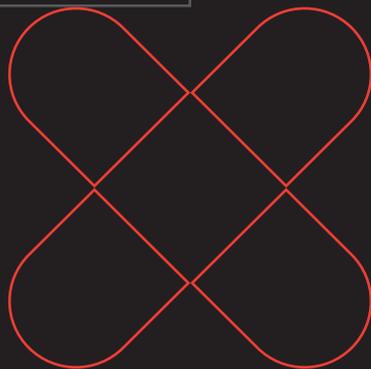
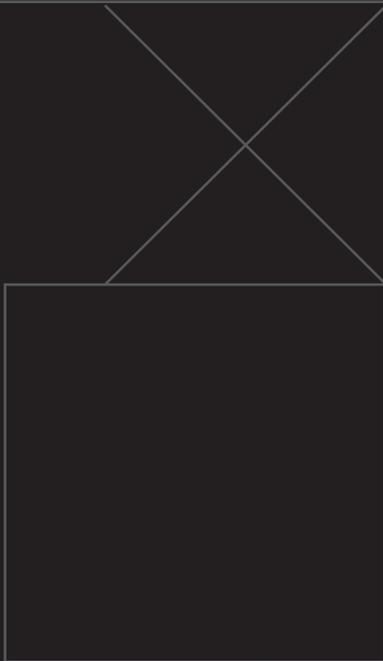




REDEYE

**GAMING
DAY 2018**



REDEYE

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

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

THE GAMING TEAM



Johan Ekström
Client Manager

Johan has a Master of Science in finance from the Stockholm School of Economics, and has studied e-commerce and marketing at the MBA Haas School of Business, University of California, Berkeley. Johan has worked as an equity portfolio manager at Alfa Bank and Gazprombank in Moscow, as a hedge fund manager at EME Partners, and as an analyst and portfolio manager at Swedbank Robur. At Redeye, Johan works in the Corporate Broking team with fundamental analysis and advisory in the tech sector.



Kristoffer Lindström
Analyst

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



Tomas Otterbeck
Analyst

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

AGENDA

08.30 Registration and light breakfast

09:00 Redeye Welcoming and Intro

09:15 Panel Discussion; Industry Trends

Panelists

THQ Nordic CEO Lars Wingefors

Stillfront CEO Jörgen Larsson

Funcom CEO Rui Casais

Remedy CEO Tero Virtala

Rovio CEO Sweden Reginaldo Valadares

Moderator

Tomas Otterbeck

09.45 Company presentation; GoodBye Kansas

CEO Peter Levin gives a company introduction

10.00 Coffee on deck

10.30 Panel Discussion; Gaining & Retaining players

Panelists

Starbreeze VP Communications Maeva Sponbergs

Next Games CEO Teemu Huuhtanen

MAG CEO Daniel Hasselberg

Nitro Games CEO Jussi Tähtinen

Fatshark CTO/vCEO Rikard Blomberg

Moderator

Johan Ekström

11.00 Panel Discussion; e-Sport

Panelists

G:LOOT CEO Patrik Nybladh

ChallengerMode CEO Robel Efrem

Red Reserve CEO Patrik Andersson

Universal Music Group CEO e-sport Gustav Käll

Moderator

Kristoffer Lindström

11.30 Company presentation; Quixel

Founder and CEO Teddy Bergsman gives a company introduction

11.45 Lunch on deck

Bios

Panel 1: Industry Trends

THQ Nordic CEO Lars Wingefors

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

THQ was founded in 2011 and is a global video game publisher and developer. The company is based in Vienna (Austria) and Karlstad (Sweden), with subsidiaries in Germany, Sweden, and the USA. THQ Nordic brands include Darksiders, MX vs. ATV, Saints Row, Dead Island, exclusive rights to the Metro series, Red Faction, Titan Quest, Biomutant, and many more.

Stillfront CEO Jörgen Larsson

Jörgen is the CEO of Stillfront Group since October 2015. Before being formally engaged as CEO, Jörgen Larsson performed work for Stillfront on a consultancy basis. Jörgen has a Master of Science in Industrial Engineering from Linköpings Tekniska Högskola and additional studies in physics and philosophy at Uppsala University. He also has experience from Ericsson, Mind AB and a number of other management positions.

Stillfront is a group of independent creators, publishers, and distributors of digital games. Stillfront operates through nine near-autonomous subsidiaries: Bytro Labs, Coldwood Interactive, Power Challenge, Dorado Online Games, Simutronics, Babil Games, eRepublik, OFM Studios and Goodgame Studios. Stillfront has a focus on acquiring game studios and thus create strong risk-adjusted returns for their shareholders.

Funcom CEO Rui Casais

Rui started in Funcom in 2004 as a Junior AI Programmer for Age of Conan. In 2008, he was promoted to Chief Technology Officer, establishing a technology team for the Company's DreamWorld engine and Rui became CEO and Managing Director in 2015.

Funcom is a Norwegian video game developer specializing in online games. It is best known for the MMORPG titles Age of Conan, Anarchy Online, The Secret World and The Longest Journey series of adventure games. The company has offices in Oslo, Norway, and North Carolina, US.

Remedy 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 founded in 1995 and based in Espoo, Finland. The company creates story-driven console and computer games with renowned partners such as 505 Games, Microsoft, Rockstar Games and Smilegate. Remedy has two games under development, CrossFire 2 and Project 7, built using our proprietary Northlight game engine and tools. Past games include Death Rally, Max Payne, Max Payne 2: The Fall of Max Payne, Alan Wake, Alan Wake's American Nightmare and Quantum Break.

Rovio CEO Sweden Reginaldo Valadares

Reginaldo has 17 years of experience in the gaming industry. He has founded an online multiplayer start-up in Brazil, managed Glu Mobile's studio in Sao Paulo and has released Blood and Glory. Reginaldo has also worked at Wooga and Aeria Games in Berlin. Since 2015, he has worked at Rovio first in Finland as Head of Production for Rovio Stars and then Head of the Rovio studio in Stockholm.

Rovio Entertainment Corporation is a Finnish developer, publisher, distributor of video games and is an entertainment company headquartered in Espoo, Finland. The company was founded in 2003 as a mobile game development studio. The company is best known for creating the Angry Birds franchise.

Panel 2: Gaining and Retaining Players**Starbreeze EVP Communications Maeva Sponbergs**

Maeva has 18 years' gaming industry experience and many years of experience in communications and investor relations. Maeva has held the position as Executive Vice President of Communications at Starbreeze since 2017.

Starbreeze is an independent creator, publisher, and distributor of high-quality entertainment products with three business areas covering own Games development, publishing and Virtual Reality. Notable games developed include The Chronicles of Riddick: Escape from Butcher Bay, Payday 2 and Brothers: A Tale of Two Sons. In 2015, the company announced that it would start publishing video games from independent developers and that it had begun the development of a virtual reality headset named Project Star VR.

Next Games CEO Teemu Huuhtanen

Teemu serves as CEO and Chairman of the Board at Next Games. Previously, Teemu has a vast experience from a large number of senior roles. Among others, he has served as President of North America for Sulake Corp, CEO of Orchimedia, Vice President of M&A at Rovio Entertainment and Director at MAG Interactive. He is also a board member at Armada Interactive, Pilke Helsinki, Rabbit Films and Vaah Holdings. Teemu has studied at Kuopio Polytechnic, applied Sciences at Savonia University and he holds a BBA from Preston University.

Next Games is a developer and publisher of licensed mobile games. The company is a trendsetter in service-based mobile games based on mass entertainment products such as movies, TV series or books. Next Games develop games in close cooperation with the license owners of entertainment products to ensure a tight connection between the game and the original entertainment product. In 2015, Next Games published two games that received praise from the critics. One of them being The Walking Dead: No Man's Land which has been downloaded more than 16 million times.

MAG Interactive CEO Daniel Hasselberg

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

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

Nitro Games CEO Jussi Tähtinen

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

Nitro Games is a 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 minimize risk in the business model. Nitro Games second business area is developing and publishing mobile games.

Fatshark CTO/vCEO Rikard Blomberg

Rikard is a co-founder, initially CTO, and currently Deputy CEO of Fatshark AB. Rikard has an extensive experience acquired from working as a producer on various game development projects.

Fatshark is an independent video game developer and publisher. The company has been involved as subcontractors in several AAA titles for consoles and PC and has developed and published own games. Fatshark developed and published the newly released Warhammer: Vermintide 2 - a four-player co-op action game set in the Warhammer world - as well as the award-winning and multi-million selling title Warhammer: Vermintide.

Panel 3: eSport**G-LOOT CEO Patrik Nybladh**

Patrik is the CEO & Co-Founder of G-Loot and have led the company from an app idea all the way to an eSports platform available cross-platform. Patrik is a successful entrepreneur, who founded Sweden's largest apartment exchange sites, "andrahand.se" and "lägenhetsbyte.se" which was sold to Bonnier Group.

G-Loot enables gamers across the world to compete in eSports. The company host competitive tournaments and leagues in some of the world's biggest game titles. G-Loot arranges thousands of competitions online and broadcast weekly.

Challengermode CEO Robel Efram

Founded in 2014, Challengermode is an eSports startup from Sweden with the mission of making eSports as accessible as regular sports are to regular gamers. As such, Challengermode makes it possible for competitive gamers to get a pro-player experience and to be rewarded for their skill and effort in competitive computer games, with prizes like merchandise and money.

Red Reserve CEO Patrik Andersson

Patrik founded Orbit, the eSports organization, in early 2012. Before the official opening of the club, Orbit was known as "Diversity," a casual gaming community for anyone and everyone. In 2017, Orbit Esport acquired the Red Reserve brand and renamed the company.

Red Reserve is a well-known brand within eSports. Red Reserve features teams across four different games; CS:GO, Call of Duty, Gears of War and FIFA 18. The COD team won the European championship in 2017. For the 2018 season, Red Reserve has recruited a very strong COD team consisting of some of Europe's top-ranked players. The income streams consist of sponsorships, adds, prize money, transfer fees, and merchandise.

Gustav Käll Global head of Partnership Gaming at Universal Music Group

Gustav Käll is the Global Head of Partnerships Gaming with responsibilities over Universal Music Groups's overall strategy and execution in the mission to get UMG closer to the gaming and eSports industry. Gustav was once an active World of Warcraft player in one of the best and most sponsored guilds in the world.

Universal Music Group (UMG) is an American global music corporation that is a subsidiary of the French media conglomerate Vivendi. UMG's global corporate headquarters are located in Santa Monica, California.

Company presentations**GoodbyeKansas CEO Peter Levin**

Peter is Group CEO and Co-Founder of GoodbyeKansas. He has +25 years of executive leadership in the game and entertainment industry. Prior to this, he was CEO at Bonnier Multimedia, Electronic Arts Nordic, Pan Vision Group, Fido. Former Board Member at Starbreeze, Boss Media and Digital Illusion (DICE).

Goodbye Kansas consists of Goodbye Kansas Studios, Goodbye Kansas Game Invest, and Infinite Entertainment with studios and offices in Stockholm, Uppsala, London, Hamburg and Los Angeles. Thanks to award-winning experience and expertise within VFX, CGI, Motion capture, animation, development and marketing of games, Goodbye Kansas offers uniquely integrated services for all visual mediums. The company also creates, develops and manages its own brands and IP's.

Quixel CEO Teddy Bergsman

CEO, Co-founder, and Chairman of the Board of Quixel. He was the sole developer of NDO, DDO, 3DO and Quixel Suite. At the start of his career Tedy was employed at the Swedish gaming company Starbreeze. He has invented the concept, scanning technology and developed all data compilation pipelines for Megascans.

Quixel is an industry leader in high-end scan-based applications, specializing in art tools for the Games, Visualization and VFX industries. After releasing its first line of tools in 2011, Quixel products quickly became a defacto standard for modern art production pipelines.

Redeye

Redeye Gaming Guide 2018

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Interviews question with CEOs at our client companies

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

- A)** What were the major highlights in 2017 for your company?
B) What will be your main focus in 2018?
C) Which trend(s) will have the biggest impact on the industry in the coming years?

Lars Wingefors, THQ Nordic (Market cap. SEK 15.2bn).



A) The highlights include the following:

- Sales increased 68% to MSEK 508 and with a 37% EBIT margin.
- Acquisition of 3 development studios; Black Forest Games GmbH, Pieces Interactive AB, and the Biomutant developer Experiment 101 AB.
- The release of our first developed sequels at the end of the year.
- Continued increased investments into the future pipeline. By the end of the year, we had 36 game development projects.
- New share issues raised MSEK 581 in September, and this was later used for the acquisition of Koch Media GmbH in February 2018.

B) In general, continue with the same strategy on a greater scale with Koch Media/Deep Silver onboard meaning executing our current business to expectation and continue investing into more new development, continue Asset care-strategy and make further acquisitions (IPs, studios, and publishers).

C) When new large players are entering the hardcore gaming markets, there will be new platforms for development and digital distribution. At the same time, the current platform holders will move on into the next generation in the coming years.

In general, we see new tech, platforms, genres, business models, market and new consumers as an opportunity. Both by adopting this and by capitalizing on that valuations and competition gets lower in mature segments.

Jörgen Larsson, Stillfront Group (Market cap. SEK 5.5bn).



A) The giant leap we made. We achieved nearly 1000% growth, high profitability and still low risk.

We achieved the high profitable growth both organically and through M&A. Our acquisitions of eRepublik and Goodgame Studios has really outperformed any expectations. We also released more products than ever before, three of them in Q4, all were the best so far in the company's history.

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

B) Continue to grow with high profitability and stability. Both organically and through further acquisitions of high quality. We aim to release even more products in 2018, paired with a lower degree of investments (own capitalized work) in relation to our revenues. Continue to execute on our world-class performance marketing skills achieving high ROI on marketing spend.

Create further synergies between our studios to increase effectiveness and create leverage.

We also prepare for be listed on the Nasdaq Nordic main market in 2019.

All in all - to create significant shareholder value at a lower risk than comparable companies.

C) High activity in M&A, consolidation will accelerate. M&A becomes a core skill for future winners.

Create leverage of massive IPs in parallel with high creativity in new game concepts.

Winners need to master customer acquisition, monetization, and retention to create, keep and leverage customer bases. Top notch knowledge, culture, and tools are imperative to have for this.

Vladislav Suglobov, G5 Entertainment (Market cap. SEK 5.1bn).



A) The increased popularity of our games on smartphones and in Japan were the drivers of our growth. The gradual increase of the screen size of smartphones, made the Hidden Object games, which are responsible for the majority of our revenue, very enjoyable even on these compact devices, and it allowed us to expand our audience. This is a continued trend that will also help going forward. We have also achieved success in Japan, which is now responsible approx. 30% of our revenue, 2nd only after USA which is responsible for 50% of revenue. In Japan, we were able to figure out the marketing approach which allowed us to reach the demographic of women that are underserved when it comes to their gaming interests, and it led to an explosion of the user base our revenue in this country.

B) Our growth is more balanced across different regions in 2018, and our main focus is to maintain the growth of our audience and monetization per user, which reached an all-time high in Q1'18 for G5 with \$44+ average paying user spending on a monthly basis. Our goal is to continue to increase our profit margins which were also all-time high in Q1'18, and it can be achieved through the growth of our revenue, but also through the increase in revenue from G5's wholly owned games on which we don't share revenue with the developers. In terms of the genres, we aim to maintain our leadership in hidden object games but we are also trying to expand our genre offering to Match-3 games and have some good signs there already. Even a moderate success in this genre can make a difference for our results.

C) In developed markets, which are the major source of revenue for us, there's not much to gain in terms of smartphone penetration, but data shows that smartphone users are spending more time with apps and they are

getting more comfortable spending money in games. This helps us, naturally. Also, we are still far from reaching every potential player of our games in these markets. Then there are less developed markets where smartphone penetration is still going up but where average spending per user is lower. There's less near-term impact on G5 from these markets and the trends there, but they are very interesting for our longer-term potential and expansion plans in the future. In terms of devices, the average size of the smartphone screen and memory capacity keeps going up, and this helps us a lot, as our games are more comfortable to play on larger screens and tend to have a lot of rich content, which takes up the space on the smartphone. In terms of new emerging technologies, we are of course watching the development in AR and VR space, although in our view these platforms are unlikely to be a promising platform for casual games in the next several years. Messenger games look interesting but tend to be quite limited technologically which doesn't always work with our main genres. I don't know how big of an impact these new technologies are going to have in the end, but we are always looking at what's going on if it's interesting enough.

Bo Andersson Klint, Starbreeze (Market cap. SEK 4.4bn).



A) We signed two major Publishing deals really validating our model through the collaboration for Psychonauts 2 and System Shock 3. At the same time Dead by Daylight delivered massively. We signed the deal for the VR Park in Dubai (7000 square meters of it!) and was the first pure games developer to be listed on Nasdaq's main list in Stockholm.

B) Overkill's the Walking Dead! This is a really big one for us and will be released later this year. We're also super excited for our VR initiatives through LBE collaborations and content.

C) We see a lot of traction in the VR space where in 5-10 years the really big impact will be noticeable for everyone, we envision fusing AR and VR in new ways. In gaming, we're always looking for more computing and rendering

power, streaming and cloud services is developments we've followed closely the last few years and are waiting for to mature.

Jussi Tähtinen, Nitro Games
(Market cap. SEK 130m).



A) 2017 was a very busy year for us. The highlights for us were listing Nitro Games in Stockholm in June, obviously. This listing enabled us to expand our business to self-publishing, and as a result, we launched Medals of War in September on iOS in western markets and signed it with Netmarble for MEA markets. Also, we signed a big game production deal with Wargaming last year, and this project was definitely one of the highlights of last year.

B) Our main focus in 2018 is in continuing seeking growth by building more revenue streams. For us, this means expanding our portfolio of real-time multiplayer games on mobile. We just announced our new game Heroes of Warland which is set for launch soon. We also recently announced that our co-operation project with Wargaming is moving to launch phase with a new deal. And then we have the Medals of War progressing forward and we're looking to get that out in MEA region with Netmarble soon.

C) I think there are short-term and little bit longer term impacts here. Short-term the impact is definitely coming from competitive multiplayer and how that evolves with eSports. Little bit longer term it's about games becoming

more and more services that are platform and device independent. I think these two impacts will largely go hand in hand. We're already seeing examples of this with games where PC, console & mobile users can play with each other in real time. Nitro Games is very much focusing on competitive real-time multiplayer, so we're definitely seeking to benefit from this trend directly. Also, we've built our tech NG Platform in a way that it can serve several platforms, while our focus right now is exclusively on mobile

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.

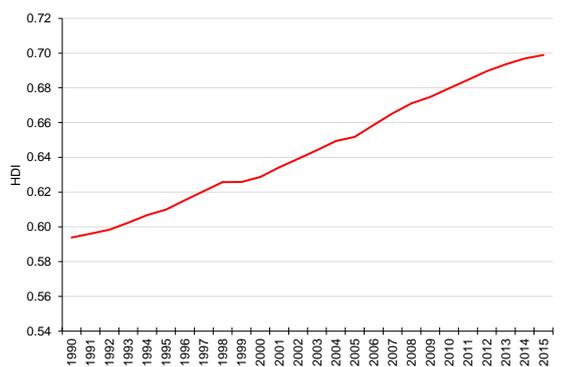
GLOBALLY INCREASED DEMAND FOR FREE TIME ENTERTAINMENT

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

For the gaming industry this leads to the following:

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

Human Development Index, world average



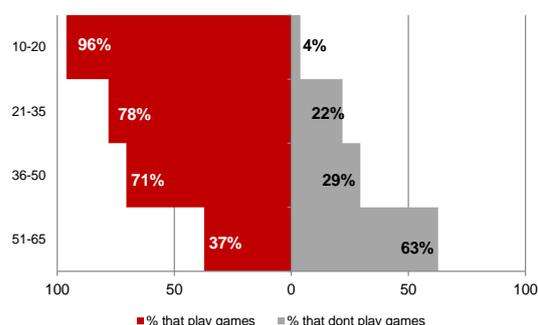
Source: <http://hdr.undp.org>

GAMERS COME OF AGE

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

share of people closer to retirement playing games, creating a massive opportunity and a growing target group.

% Gamers per age population in the USA



Source: Newzoo, populationpyramid.net & Redeye Research

DIGITALIZATION LOWER COST OF DISTRIBUTION AND INCREASE AVAILABILITY

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

Aggregated net sales and gross profit of large game developers*



Source: Bloomberg & Redeye Research

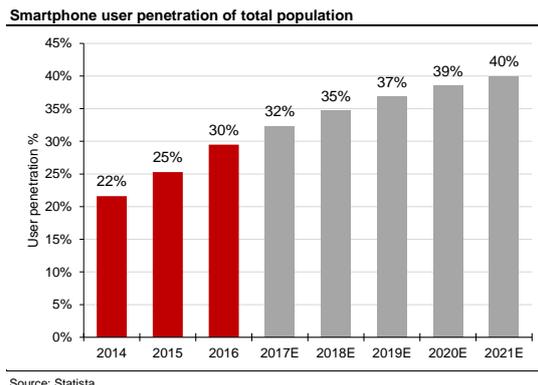
*EA, Activision-Blizzard, Ubisoft, Take-two

SMARTPHONE BROADENS GAMER AUDIENCE

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

Industry description

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



Game Genres

Shooter/FPS

First Person Shooter

Examples: Call of Duty, Battlefield, Doom

constantly active. Paid accounts and in-game purchasing.

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

Action/Adventure

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

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

Strategy/MOBA

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

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

RPG

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

Examples: Witcher, Final Fantasy, Skyrim, Mass Effect

Simulation

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

Examples: Sim City, Sims, Farming Simulator

MMORPG

Massive Multi-player On-line RPG.

Thousands of individuals play on-line simultaneously. Game environment is

Puzzle

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

Examples: Tetris, Candy Crush Saga, Unravel

Industry value chain

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

Developers

Developers can be divided into three different categories.

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

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

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

A value chain that is changing

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

- Loser: Retailer
- Winner: Distributor

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

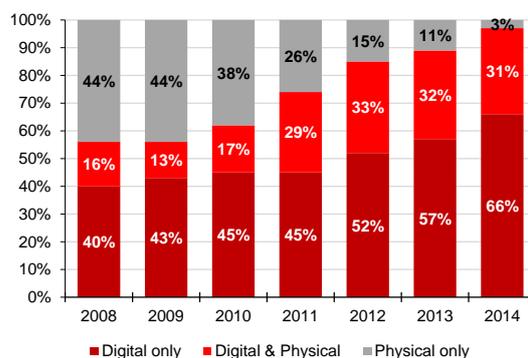
Distributors

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

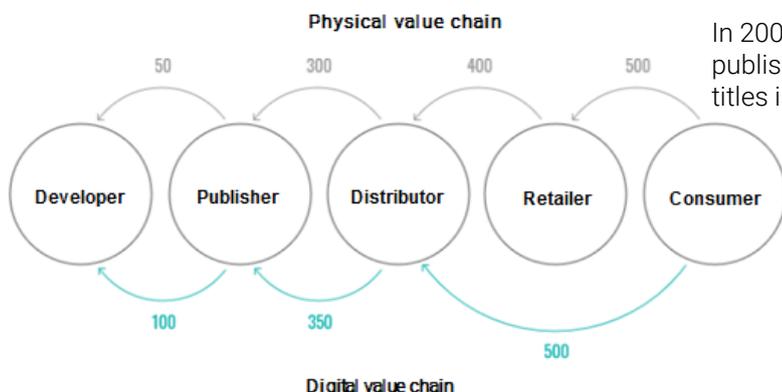
Publishers

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

Publishing format video games



Source: Newzoo



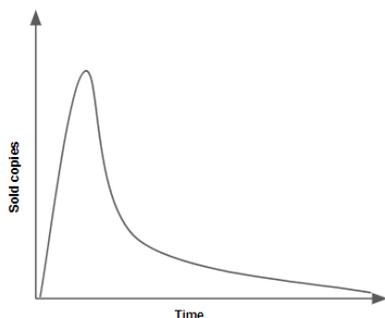
In 2008 roughly 44% of video game were only published in physical format, today almost no titles is only released none digital.

Revenue models

The following section describe 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 70% of the life-time value comes during the first months post release.



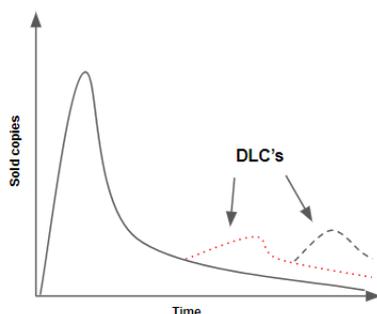
Examples from our Universe:

Darksiders III, Metro Exodus, ELEX



Extra content

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



Examples from our Universe:

Overkill's The Walking Dead, Payday2, MX vs. ATV,



Freemium/F2P

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

Examples from our Universe:

Hidden City, Siege: Titan Wars, Empire, Big Farm, Call of War, Medals of War



Subscription-based

Subscription-based is the new trend. EA,



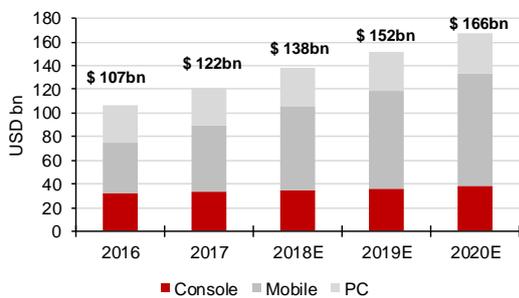
Sony and Microsoft have launched new subscription based services. This could also be a more common revenue model for mobile games in the future. Possibly for the whole industry as well where the dominating giants charge subscriptions for all their games cross-platform. In 2018 Microsoft two biggest exclusive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

The market

Size and growth

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

Global Gaming Market in USD bn



Global CAGR 11% 2017-2021, mobile CAGR of 19%

Source: New zoo

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



#Gamers
2.6Bn



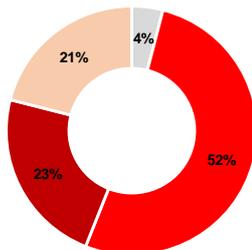
Avg age
35



Gender
M 54%, F 46%

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

Global games market per region 2018

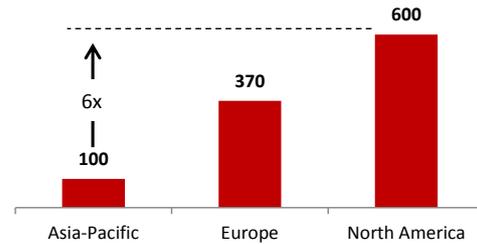


Latin America Asia-Pacific North America EMEA

Source: Newzoo

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

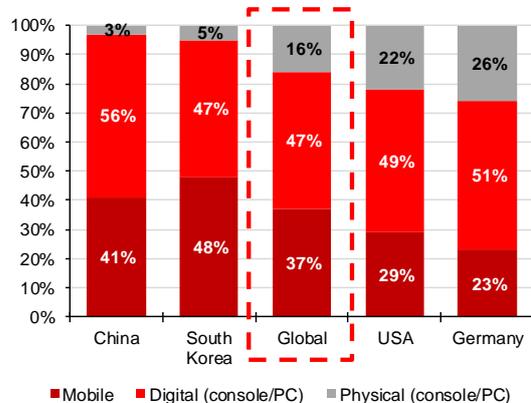
Revenue per capita (SEK)



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

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

Market share per country, mobile digital & physical

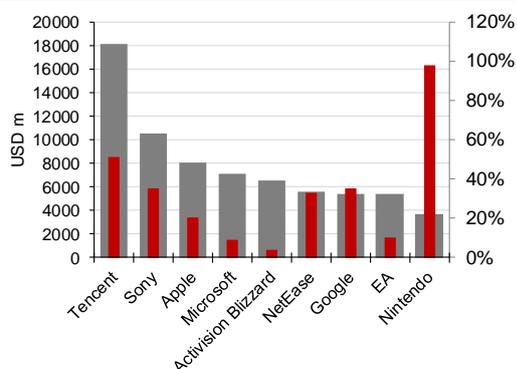


Source: New zoo

The big players

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

Gaming revenues from publicly traded companies (USD m)



Source: SuperData

Tencent and NetEase dominate the Chinese market with large online platforms providing games services. Apple and Google own the biggest mobile gaming platforms.

Tencent, the world’s fifth largest traded company, made USD 18 billion of revenue from games in 2017, around 80% more than Sony, the second largest gaming company. Impressively the two largest players had growth rates surpassing many small companies.

Sony is the second biggest player with 60% market share of the current generation of consoles, which means 80 million PlayStation 4 sold. Sony’s service PlayStation Plus has 34 million subscribers, the service have become one of the company’s most important revenue drivers. In 2017 the growth rate in Sony’s games division was on the same level as the year before, a whopping 35%.

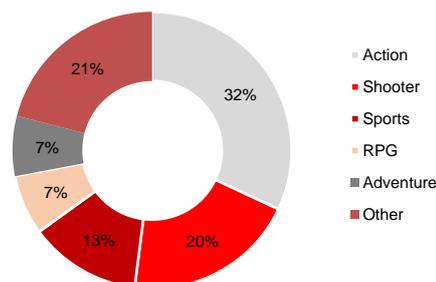
Nintendo had its big turn-around in 2017 with a 100% growth. With its release of the Switch-console and four of the year’s bestselling games many console gamers are in love with Nintendo yet again. Nintendo Switch is also the fastest selling console of all time in the US. Globally the console has sold 17 million units.

Valve’s Steam generated revenues of USD 4.3 bn in 2017 (USD 3.5 bn). The entire PC market earned USD 32.3 bn in 2017, meaning Valve has a market share of 13%.

Best selling games 2017

Gaming is a consolidated industry with a minority of the companies standing for the majority of the revenues. Violent games stand for over 50% of the revenues on console and PC.

Game genre sales distribution (2017)



Source: Newzoo

There are a few dominant game titles within each of the segments with very high loyalty and stable revenues.

Console Physical Revenue 2017 (USD m)

Game	Genre	Revenue
Call of Duty WWII	Shooter	850
FIFA 18	Sports	652
Super Mario Odyssey	Platform	388
Mario Kart 8 Deluxe	Racing	322
Zelda: BOTW	RPG	309

Source: VG Chartz

FIFA and Call of Duty have been the highest grossing games for several years on console. Amongst the top 5 highest grossing games, based on physical sales, was three games exclusive for Nintendo Switch. When most other game is released on multiple platforms, this achievement is of course highly impressive showing that Nintendo’s strong IPs in combination with high quality still is a winning combination.

Console Digital Revenue 2017 (USD m)

Game	Genre	Revenue
GTA 5	Action	521
Call of Duty WWII	Shooter	502
FIFA 17	Sports	409
Destiny 2	Shooter RPG	329
FIFA 18	Sports	324

Source: SuperData

Take-Two Interactive (public traded company) own Rockstar Games the developer and owner of the GTA-franchise. GTA 5 was released almost five years ago, but the game still was the highest grossing game from digital sales in 2017. The reason for this is GTA Online, an online multiplayer open world where players can buy all sorts of things in microtransactions. The game has sold 95 million copies, which makes it the third bestselling game of all time (after Tetris and Minecraft). In terms of revenue is it not only the biggest game of all time it is the biggest entertainment product of all time. However mobile games and PC free-to-play games are excluded, when you like in this case talk about units sold.

EA's FIFA-series has two of the highest grossing titles when it comes to digital sales, with the last year's version surpassing the new version in 2017.

This is another example of the changed revenue model in many games, were digital revenue from additional content can drive big revenue streams for years in popular games.

PC Revenue 2017 free-to-play (USD m)

Game	Genre	Revenue
League of Legends	MOBA	2100
Dungeon Fighter Online	MMORPG	1600
Crossfire	Shooter	1400
World of Tanks	Strategy	471
Dota 2	Strategy	406

Source: SuperData

The most popular game in e-sport and the biggest game when it comes to revenue is yet again "League of Legends" from Riot Games owned by Tencent. Free-to-play games are most popular in Asia, the top 3 titles all come from Asian publishers earning USD 1.4- 2.1 billion dollars in 2017. Dungeon Fighter Online had the highest growth of this three titles in 2017. The game has 500 million registered players.

Premium PC revenues 2017 (USD m)

Game	Genre	Revenue
PUBG	Shooter	714
Overwatch	Shooter	382
Counter Strike GO	Shooter	341
Destiny 2	Shooter RPG	218
GTA 5	Action	118

Source: SuperData

In the western markets, premium PC games are most popular. In 2017 "Battle Royal" has become a dominant new game genre. Inspired by the cult classic movie from Japan with the same name, "Battle Royal", released in 2000. Later a book was written in the US and 12 years later the Hollywood blockbuster film series "The Hunger Games" was released based on the bestselling book. A few games were made inspired by this movies, but it was not until "Player Unknowns Battlegrounds" (PUBG) the epic commercial breakthrough was a fact for the genre. PUBG, which entered so-called "Early Access" in March 2017, generated USD 714 million.

Later in July 2017, Fortnite was released, adding a free-to-play "Battle Royal" mode two months later. Fortnite gradually overtook PUBG thanks to the games free-to-play mode and far lower system requirements. The game also works cross-platform. Recently mobile version for both games was released which also was an instant hit, making Fortnite mobile the top-grossing mobile game in the US. Fornite currently has revenue streams of USD 220 million each month.

Mobile

Over 500 new mobile games are introduced in App Store every day. The overall mobile games market was USD 60 billion in 2017, and the top 10 games still control 20% of the total revenue. Asian publishers such as Tencent, NetEase and Mixi dominate the mobile scene with the top 3 titles alone earning over USD 4.5 billion (7.5% of the total market).

Mobile highest grossing games 2017 (USD m)

Game	Genre	Revenue
Arena of Valor	MOBA	1900
Fantasy Westward	MMORPG	1500
Monster Strike	MMORPG	1300
Clash Royale	Strategy	1200
Clash of Clans	Strategy	1200

Source: SuperData

Candy Crush Saga and Pokémon GO both made it on the top 10 list this year also, both generating revenues of USD 900 million. Pokémon GO is still big in Japan.

Brand recognition is a key to success in the mobile gaming space, were licensed titles often can be found amongst the highest grossing titles.

Valuations and Investment opportunities

Some qualitative factors that we find affect the valuations are; Quality and risk of the current portfolio and pipeline of projects, IP ownership, track record for the company regarding past hits and segment focus of games (console, PC, F2P online, x-platform, mobile, etc.). It all boils down to cash flow generating possibilities in the future for the company. On an overall level, the multiple valuations most often range from; 2-7x EV/S and 15-30 EV/EBIT. Our company sample is based on 36 companies with data gathered from Bloomberg. Some companies in our sample are not solely focused on gaming, but if 50% or more of their annual income is generated from gaming activities, then we have included them in our lists. There are a handful more public gaming companies, but they have been excluded due to lack of consensus estimates.

Segment valuations

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

Mobile

The companies in our Mobile list have an almost exclusive focus on creating mobile games. On an aggregated level the mobile companies have the lowest valuations. The group is valued, based on 2018 estimates, at 2.6x sales and 12x EBIT. The aggregated group is expected to grow annually by 11% the coming three years with an average EBIT margin of 22%. Believe that the intense competition within mobile gaming is one of the reasons for the relatively low valuation multiples for the group

Valuation Mobile (mUSD)					
Company	EV	EV/S 18E	EV/EBIT 18E	S. CAGR 17-20E	EBIT-m 17-20E
netmarble	7 867	3.1x	15x	14%	24%
NCSOFT	4 641	2.8x	8x	14%	36%
MTG	3 249	1.4x	17x	7%	9%
Zynga	2 865	3.2x	19x	9%	18%
GUNGHO	2 014	2.6x	9x	-5%	28%
Com2us	1 363	2.5x	7x	15%	40%
GLU Mobile	749	2.4x	42x	18%	7%
Stillfront	634	3.5x	18x	126%	24%
G5 Entertainment	502	2.7x	25x	26%	13%
Rovio	381	1.2x	12x	4%	13%
11 Bit Studios	274	10.8x	14x	68%	71%
Playway	244	7.8x	11x	27%	69%
Next Games	111	2.1x		66%	-1%
Nitro Games	12	3.4x		77%	-41%
Agg. Mobile	24 907	2.5x	12x	11%	22%

Source: Bloomberg & Redeye Research

Console & PC

Console and PC focused gaming companies receives the highest valuation based on annual multiples. One possible reason for this is that these type of companies most often has a more volatile sales swings then, for example, mobile gaming firms. Not all but many only have a few IPs with a three year plus development cycle. The group is valued,

based on 2018 estimates, at 6.2x sales and 22x EBIT. The aggregated group is expected to grow annually by 27% the coming three years with an average EBIT margin of 28%. Many companies in this segment group are active acquires, so this affects the growth rates to some degree.

Valuation Console & PC (mUSD)					
Company	EV	EV/S 18E	EV/EBIT 18E	S. CAGR 17-20E	EBIT-m 17-20E
Take Two Interactive	11 609	4.2x	18x	23%	26%
Perfect World	7 217	4.7x	20x	21%	24%
CD Projekt Red	3 511	27.3x	49x	47%	55%
Paradox Interactive	1 912	15.2x	37x	24%	42%
THQ Nordic	1 810	4.0x	24x	113%	17%
Frontier Development	803	19.0x	434x	17%	14%
Starbreeze	471	4.0x	34x	75%	19%
Focus Home Interactive	152	1.7x	14x	14%	12%
Remedy Entertainment	79	3.7x	32x	27%	12%
Agg. Console & PC	27 564	5.2x	22x	27%	26%

Source: Bloomberg & Redeye Research

Cross-platform

We have gathered the behemoths of the gaming industry in the cross-platform group. These companies are most often active in all segments, own proprietary platforms or even console systems like Nintendo. Most companies in this group have more stable revenues and profitability then mobile and console/pc. The aggregated group is expected to grow annually by 28% the coming three years with an average EBIT margin of 27%.

Valuation Cross-platform (mUSD)					
Company	EV	EV/S 18E	EV/EBIT 18E	S. CAGR 17-20E	EBIT-m 17-20E
Tencent	503 584	9.5x	30x	37%	30%
Activision Blizzard	53 723	7.2x	21x	8%	36%
Nintendo	49 052	3.8x	16x	44%	27%
Electronic Arts	35 784	6.4x	19x	9%	35%
NetEase	27 106	2.5x	18x	27%	13%
Ubisoft Entertainment	12 388	5.1x	25x	21%	22%
NEXON	9 960	4.0x	9x	10%	46%
Bandai Namco	6 735	1.1x	10x	5%	11%
KONAMI	5 809	2.4x	11x	7%	21%
Square Enix	4 549	1.9x	12x	6%	18%
CAPCOM	2 890	3.4x	18x	8%	20%
Digital Bros	164	1.6x		18%	9%
Agg. Cross platform	711 743	6.6x	24x	28%	27%

Source: Bloomberg & Redeye Research

eSport – A global phenomena

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

Definition

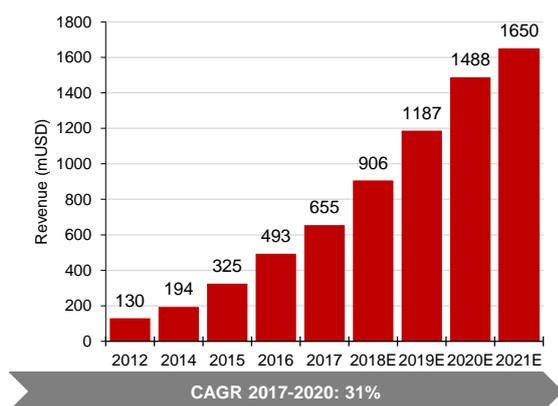
eSports is defined as competitive and professional gameplay of computer and video games. Not every game is an eSport. Most eSports are multiplayer games and played in teams. The team dynamic makes the games more enjoyable to watch for the audience. Every game franchise that is classified as an eSport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

The pro-gamers that compete in the big leagues is employed by eSport organizations, have a salary, train most often over 10 hours a day and earns a share of the prize money their team wins. There is no significant difference between the pro eSporters’ and other professional athletes.

Growth rate and size

eSports is the fastest growing sports industry in the world. During 2017 the estimated global revenue of the sector amounted to USD 655m and is expected to grow more than 30% annually over the coming years.

eSport global revenue (mUSD)



Source: statista

Top games

The top eSport titles during 2017 both in terms of number of tournaments and prize pool money was Dota 2 (ARTS), Counter-Strike: Global Offensive (FPS), League of Legends (MOBA), Heroes of The Storm (MOBA), Call of Duty: Infinite Warfare (FPS).

Most popular eSport titles 2017



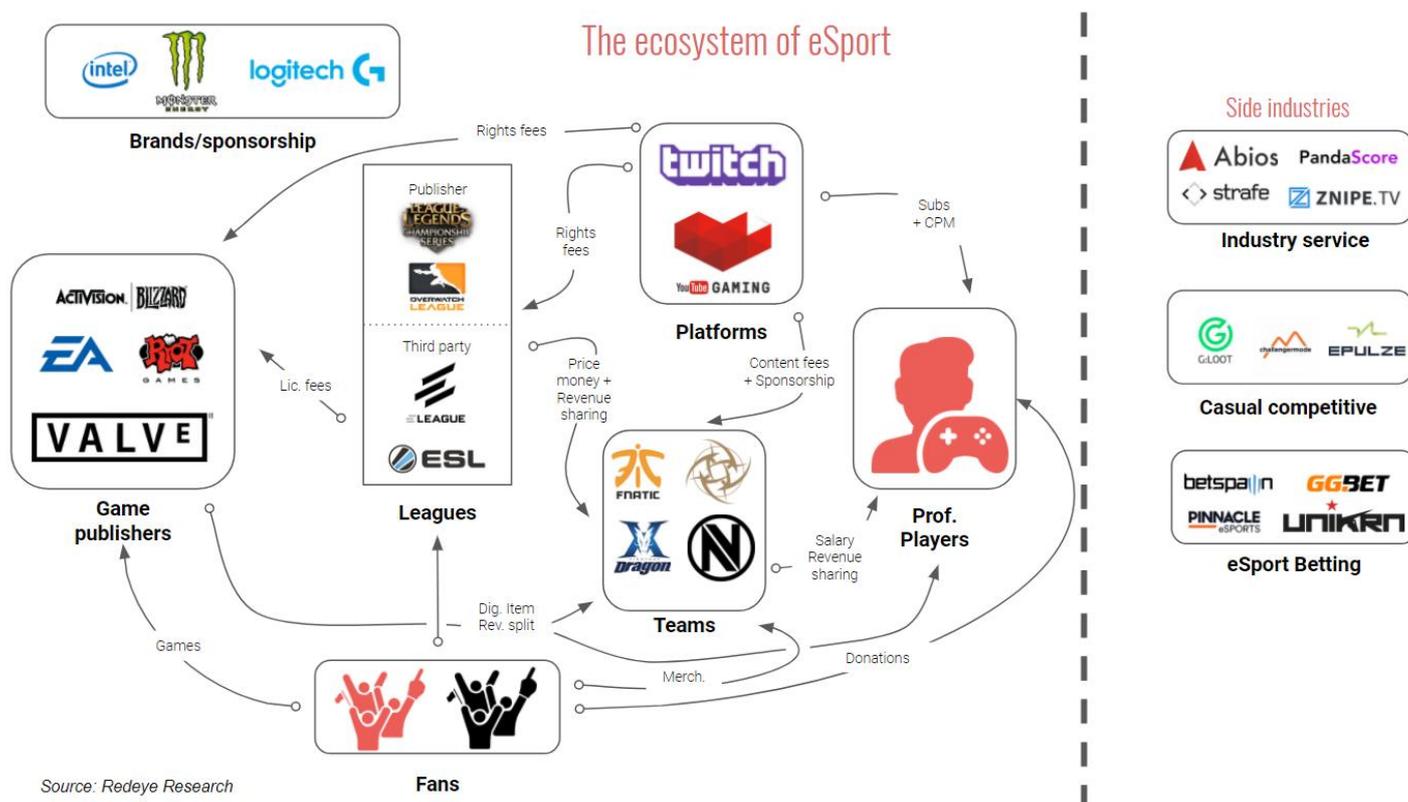
Source: esportearnings

Other notable and substantial eSport titles are; Hearthstone, Overwatch, StarCraft II, Halo 5: Guardians, SMITE, PUBG, and Fortnite.

Epic Games, the creator of Fortnite, announced in May 2018 that they would commit USD 100m in prize money for Fortnite eSport tournaments during 2018-19.

The ecosystem of eSports.

The ecosystem of the eSport 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.



Source: Redeye Research

Game publishers

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

Publisher's main income comes

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

Leagues/Tournaments

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

Leagues main income comes from:

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

Teams and players

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

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

- Merchandise
- Income from streaming platforms

Brands and advertisers

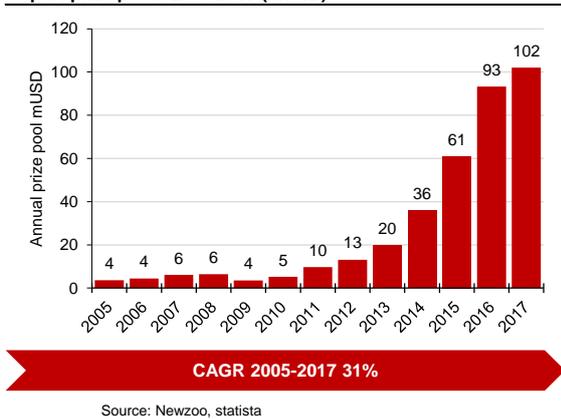
The most significant revenue contributors within the ecosystem are brands and advertisers with sponsorships.

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

Fans

The increasing fan base of eSport is the main driver of the revenue within the industry and is the reason why many brands have taken an interest in eSports. The amount of eSport viewers in 2017 amounted to 335 million and is expected to continue to grow in the coming years.

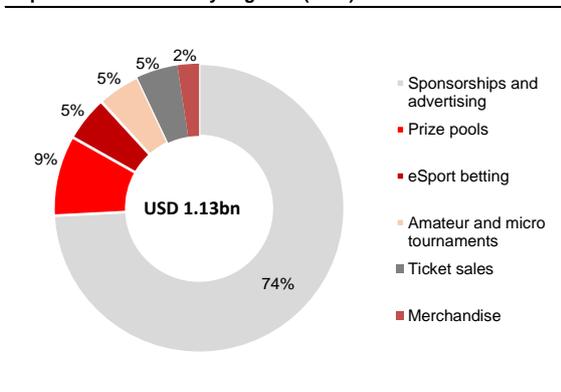
eSport prize pools 2005-2017 (mUSD)



Source: Newzoo, statista

The global prize pool amounted to 102 mUSD during 2017. The prize pools have grown y an annual rate of 31% since 2005.

eSport market revenue by segment (2017)



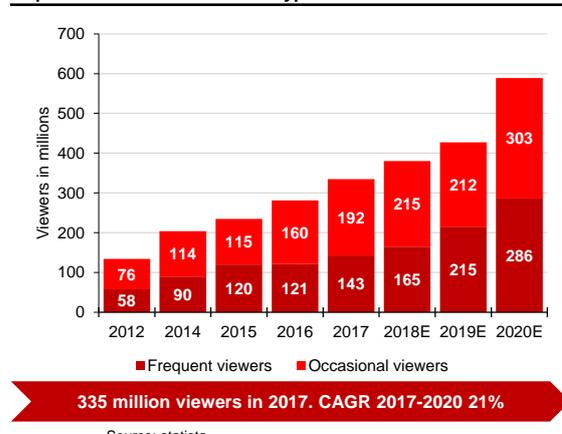
Source: statista

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

Teams and players main income comes:

- Player salary
- Sponsorship deals
- Prize pools
- Digital sales split
- Donations

eSport viewers in millions and type



Source: statista

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

Platforms

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

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

Platforms main income comes:

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

Notable side industries

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

Industry Services

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

Casual Competitive

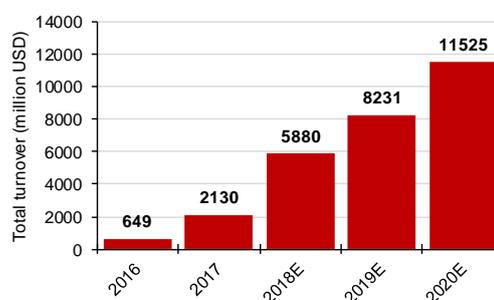
Most players are not professionals and there is an emerging industry that tried to bring the eSport experience to the casual players. Digital tournaments with friends, peer to peer match staking, hobby leagues with prizes pools is starting to take form. Some notable startups within this sub-industry: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

eSport Betting

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

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

eSport cash betting annual turnover



CAGR 2017-2020: 76%

Source: Narus Advisors / Eilers & Krejcik Gaming

Where to invest in eSports

Even though that the first known video game competition took place in 1972 the eSport industry is still young and evolving rapidly. There are vast opportunities within the startup and venture arena, but today the public investing possibilities are rather few. Here we propose ways on how investors can invest in public companies with eSport exposure.

Public companies with eSport exposure

We have judged the investability of the companies, i.e., the liquidity of the traded shares, and the eSport exposure in comparison to the total income of the enterprise. For example; Amazon owns Twitch, which is major player in the eSport industry, but Twitch is only a fraction of the total value of Amazon.

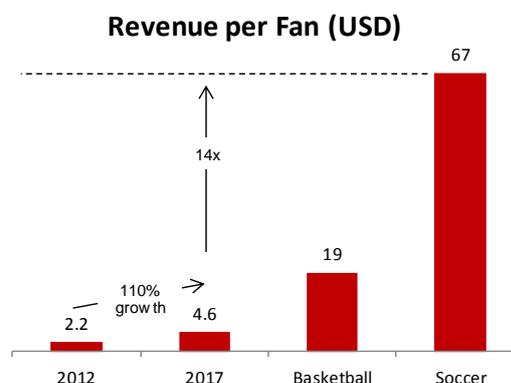
Public companies with eSport exposure					
Company	EV (MUSD)	Position in ecosystem	Type of exposure	Investability	eSport exposure degree
MTG	3 375	Event	Turtle Entertainment, ESL, DreamHack	High	High
Activision Blizzard	53 563	IP owner	StarCraft, Heroes of the Storm, Overwatch, Hearthstone, Call of Duty & WoW	High	Mid
Electronic Arts	36 428	IP owner	FIFA, EA Sports, Battlefield, Origin	High	Mid
CJ E&M Corp	2 565	Team owner, platform	CJ Entus Team Owner and OGN TV Channel	High	Mid
Amazon	788 831	Platform	Twitch, Amazon Game Studios	High	Low
Tencent	500 005	IP owner	League of Legends, Clash Royale, Honor of Kings, Fortnite, PUBG	High	Low
Alphabet Inc	653 665	Platform	YouTube Gaming	High	Low
Facebook	490 274	Platform	Facebook Gaming	High	Low
Lions Gate Entertainment	7 420	Team owner	Owns stake in Immortals	High	Low
Gfinity PLC	51	Event	GFINITY Elite Series	Low	High
ESEN Esports	2	Content creator	Streaming channels and contet	Low	High
Community Entertainemnt	2	Team owner	Owner Red Reserve	Low	High

Source: Redeye Research & Bloomberg

There are currently relatively few public companies that are solely focused on eSports, the ones that are often very small in size. One of the best ways to gain exposure to eSports is to invest in the developers and IP owners of major eSport franchises. Most notably are Activision Blizzard and Electronic Arts. Tencent is a major player in gaming and eSport, but due to the massive size of the company the eSport related income is relatively small. We view Modern Times Group (MTG) as one of the best “plays” in the public market to gain eSport exposure. The eSport focus of MTG will intensify even further after the spin-off of Nordic Entertainment, expected this fall. The company owns Turtle Entertainment, which is one of the largest eSport companies in the world and event organizer and owner of the brand ESL and, the Dreamhack.

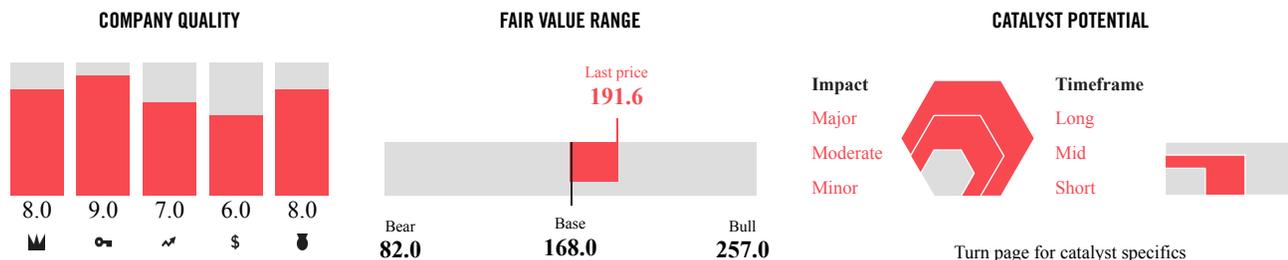
The opportunities of tomorrow

The eSport industry is still young and evolving; business opportunities will both rise and fall. We see significant potential in both related side industries and to in the eSport business directly. One way to visualize the revenue potential is to compare the monetization per fan to more traditional sports like Basketball and Soccer. eSport revenue per fan has grown 110% since 2012 and now amounts to roughly 4.6 USD per “hardcore fan,” the growth is impressive but is still about 14x lower than Soccer.



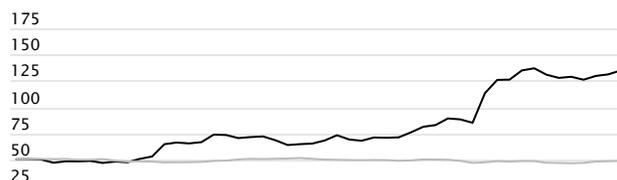
Redeye Rating

👑 Leadership
🏠 Ownership
📈 Profit outlook
💰 Profitability
🛡️ Capital strength



Snapshot

THQ Nordic
OMXS30



Marketplace	First North Stockholm
CEO	Lars Wingefors
Chairman	Kicki Wallje-Lund
Share information	
Share price (SEK)	191.6
Number of shares (M)	79.2
Market cap (MSEK)	15,197
Net debt (MSEK)	-205

Analyst



Kristoffer Lindström
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Conflict of interests

Kristoffer Lindström owns shares in THQ Nordic: **Yes**
Redeye performs/have performed services for the Company and receives/have received compensation from the Company in connection with this.

Financials

	2016	2017	Redeye Estimates		
			2018E	2019E	2020E
Revenue, MSEK	302	508	3,666	3,909	4,300
Growth	41.8%	68.1%	>100%	6.6%	10.0%
EBITDA	132	273	879	1,009	1,212
EBITDA margin	43.9%	53.7%	24.0%	25.8%	28.2%
EBIT	95	188	616	685	839
EBIT margin	31.5%	37.1%	16.8%	17.5%	19.5%
Pre-tax earnings	93	182	616	685	839
Net earnings	72	139	480	534	655
Net margin	23.8%	27.4%	13.1%	13.7%	15.2%
Dividend/Share	0.00	0.00	0.00	0.00	2.47
EPS adj.	1.00	1.75	6.05	6.73	8.25
P/E adj.	191.8	109.3	31.7	28.5	23.2
EV/S	6.0	4.0	1.7	3.7	3.2
EV/EBITDA	13.6	7.4	6.9	14.5	11.5

Last updated: 2018-03-01

Owner	Equity	Votes
Lars Wingefors	45.5%	59.0%
Erik Stenberg	9.8%	12.8%
Swedbank Robur Fonder	8.6%	4.3%
Handelsbanken Fonder	6.2%	3.1%
CMB Holding AB	3.4%	4.4%
Didner & Gerge Fonder	2.4%	1.2%
Familjen Olsson med stiftelse	1.6%	0.8%
Martin Larsson	1.6%	0.8%
RAM Fonder	1.6%	0.8%
Avanza Pension	1.5%	0.8%

Company description

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

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

Investment case

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

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

A large part of the asset value is still untapped

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

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

Focus on long-term value and buying cheap

THQ Nordic is what we like to call an owner-operator company where the management team owns 50%+ of capital, has extensive experience from the industry and is highly committed to building "something big." We believe there should be a premium on the valuation because of the strong shareholder focus

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

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

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

Counterarguments (Bear-points)

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

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

Catalyst types

Darksiders 3 reviews and release

Darksiders 3 will be released during 2018 and is this first sequel to the company's most prominent franchises. The release will create a significant boost in sales. Reviews of the title will also be highly relevant as it can be an indicator of the success rate.

More value adding acquisitions

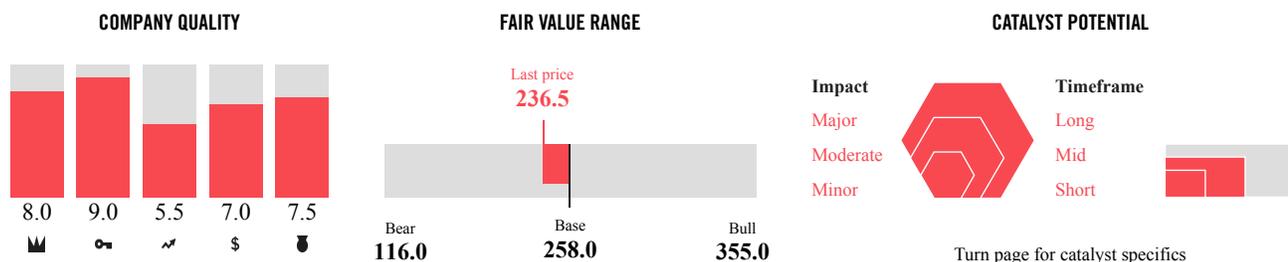
THQ Nordic has a strong focus on acquiring IPs, franchises, and companies at low prices. They can do this by utilizing one of the best characteristics of a great investor; patience. Larger acquisitions of well-known IPs could and should enhance the valuation of the company.

Aaa titles from deep silver and secret projet announced

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

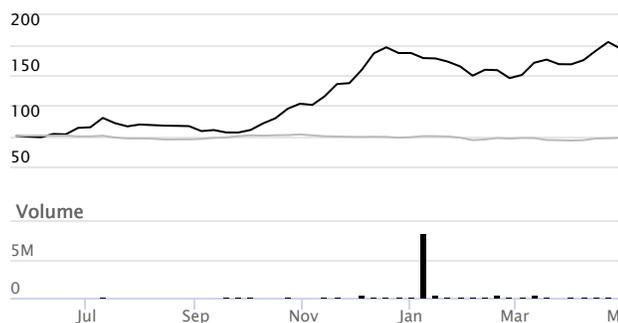
Redeye Rating

👑 Leadership
🏠 Ownership
📈 Profit outlook
💰 Profitability
🏦 Capital strength



Snapshot

Stillfront Group
OMXS30



Marketplace	First North Stockholm
CEO	Jörgen Larsson
Chairman	Annete Brodin Rampe
Share information	
Share price (SEK)	236.5
Number of shares (M)	23.3
Market cap (MSEK)	5,497
Net debt (MSEK)	304

Analyst



Kristoffer Lindström
kristoffer.lindstrom@redeye.se

Conflict of interests

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

Financials

	2016	2017	2018E	2019E	2020E
Revenue, MSEK	95	166	1,577	1,759	1,955
Growth	71.2%	75.0%	>100%	11.6%	11.1%
EBITDA	34	52	484	595	674
EBITDA margin	36.1%	31.5%	30.7%	33.8%	34.5%
EBIT	25	26	330	402	501
EBIT margin	26.0%	15.6%	20.9%	22.9%	25.6%
Pre-tax earnings	23	10	251	331	437
Net earnings	19	6	185	245	328
Net margin	20.3%	3.7%	11.7%	13.9%	16.8%
Dividend/Share	0.00	0.00	0.00	0.00	0.00
EPS adj.	3.45	0.26	7.94	10.53	14.06
P/E adj.	68.6	899.6	29.8	22.5	16.8
EV/S	3.5	11.5	3.0	3.1	2.6
EV/EBITDA	9.6	36.5	9.8	9.2	7.6

Last updated: 2018-03-17

Owner	Equity	Votes
Laureus Capital GmbH	27.0%	27.0%
Swedbank Robur Fonder	9.4%	9.4%
Första AP-fonden	9.0%	9.0%
Handelsbanken Fonder	6.4%	6.4%
Global Founders Capital GmbH & Co	5.5%	5.5%
Carnegie Fonder	3.5%	3.5%
Familjen Olsson med stiftelse	1.9%	1.9%
Prioritet Finans	1.8%	1.8%
Dominik Willers	1.7%	1.7%
Stefan Klemm	1.7%	1.7%

Company description

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

Investment case

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

Focus on risk and return creates an advantage

We believe Stillfront will continue to deliver significant growth as the company focus on bringing low-risk titles to the market. We also expect underlying growth in the gaming market and an increase in revenues from mobile. The acquisition of Goodgames takes the company to a whole new level; We believe Stillfront's other core assets will benefit significantly from Goodgame's marketing expertise and a vast network of active players, likely boost the overall performance of the Group. During 2018 the main franchise within the Group, Empire, will be expanded by two new titles, we find the market is yet to understand the potential of this new launches.

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

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

- Title risks: Despite a focus on their game portfolio there is always a title risk when it comes to a gaming company. The largest risk will always lie in titles where the company has invested the most. Siege: Titan Wars and the upcoming in-house title at Coldwood will be/are games where Stillfront will have conducted relatively large investments in.
- The risk of acquisitions: Stillfront has a clear focus on acquiring companies. Acquisitions always comes at a risk for paying too much for a company that might not deliver on expectations. Stillfront continues to be cautious and

extremely picky when it comes to game quality and price tag. Still, this is something an investor must continue to monitor.

- Bottlenecks: Stillfront is still a small company and keeps their HQ tight to reduce costs. The focus on keeping costs low are great for shareholders, but can also create various bottlenecks as most investment decisions run through the HQ. An overload of work for the small HQ can lead to missed opportunities.

Catalyst types

Call of war now cross-platform

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

War and peace above expectations

In October 2017. eRepublik Labs published War and Peace. Stillfront has stated that it is the best launch to date with strong KPIs, about 3x the monetization metrics that of World at War. The title remains strong with Gross Ranks exceeding its predecessor. Given the strong KPIs, an intensified marketing can lead to much higher income levels than the market is expecting.

Siege: titan wars global launched

Siege: Titan Wars is a mobile game developed by Simutronics. The game is in its launch phase, with a marketing plan in Asia. Today's valuation indicates that the market is not "pricing" a success, or has. This creates an interesting risk/reward situation with a limited negative reaction if the consumers do not approve the game.

Coldwood a little forgotten

It has been quiet around Coldwoods Unravel II, to be honest, we would have expected EA to announce the game release date already. We do not know the exact time of the release, but it would amaze us if the title does not come out during 2018. Coldwood is also developing an in-house title which could hold massive potential. We find that the market has forgotten Coldwood a little, more news flow regarding Unravel II and the in-house title will most likely lead to enhanced investor attention, and thus also the valuation.

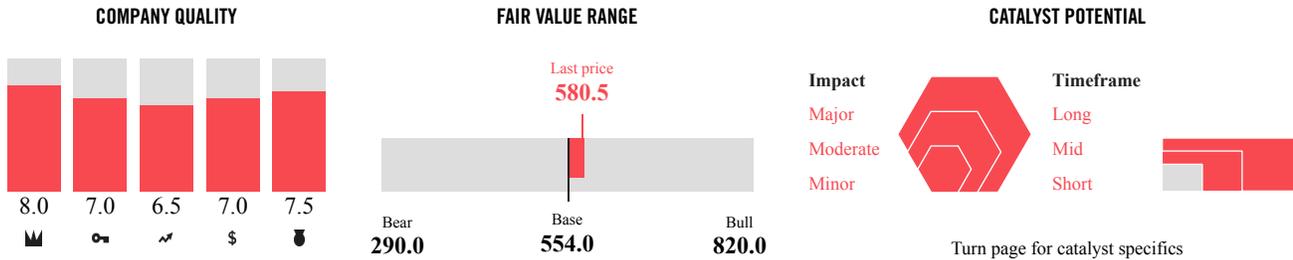
Goodgame synergies

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

Personal notes

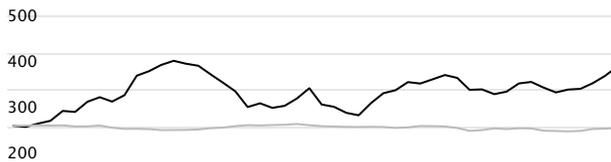
Redeye Rating

Leadership
 Ownership
 Profit outlook
 Profitability
 Capital strength



Snapshot

G5 Entertainment OMXS30



Volume



Marketplace NASDAQ Stockholm

CEO Vladislav Suglobov

Chairman Petter Nylander

Share information

Share price (SEK) 580.5

Number of shares (M) 8.9

Market cap (MSEK) 5,147

Net debt (MSEK) -234

Analyst



Tomas Otterbeck
tomas.otterbeck@redeye.se

Conflict of interests

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

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

Financials

			Redeye Estimates		
	2016	2017	2018E	2019E	2020E
Revenue, MSEK	517	1,135	1,713	2,346	2,910
Growth	34.5%	>100%	50.8%	37.0%	24.0%
EBITDA	81	157	276	399	596
EBITDA margin	15.7%	13.9%	16.1%	17.0%	20.5%
EBIT	38	102	196	308	422
EBIT margin	7.4%	9.0%	11.5%	13.1%	14.5%
Pre-tax earnings	38	102	196	308	422
Net earnings	33	86	157	245	336
Net margin	6.4%	7.6%	9.2%	10.4%	11.5%
Dividend/Share	0.75	2.50	3.75	6.50	7.80
EPS adj.	3.77	9.80	17.84	27.82	38.15
P/E adj.	154.0	59.2	32.5	20.9	15.2
EV/S	0.8	0.7	1.5	2.1	1.6
EV/EBITDA	4.8	5.1	9.3	12.1	7.7

Last updated: 2018-05-21

Owner	Equity	Votes
Swedbank Robur Fonder	8.9%	8.9%
Wide Development Ltd	7.1%	7.1%
Purple Wolf Ltd	6.0%	6.0%
Proxima Ltd	6.0%	6.0%
Tommy Svensk	4.6%	4.6%
Avanza Pension	4.5%	4.5%
Rite Ventures	2.6%	2.6%
Nordnet Pensionsförsäkring	2.4%	2.4%
SEB Fonder	2.2%	2.2%
Daniel Eriksson	1.1%	1.1%

Company description

G5 Entertainment was founded in 2001 and is a developer and publisher of casual free-to-play games for smartphones and tablets with loyal players all over the world. The company has its headquarter in Stockholm, Sweden, with development offices in Moscow and Kharkov, Ukraine. There is also a procurement and licensing office in Malta and a small sales and marketing office in San Francisco, USA. In total, G5 has nearly 300 employees. G5 has developed a business model that is both successful and scalable, which is reflected in the company's history. Together with the underlying driving forces and current trends in the mobile games industry the company will likely continue to develop its strong position with mobile casual free-to-play games.

Investment case

- We expect G5 to maintain high revenue growth of 32 percent CAGR in 2018-2021. The mobile games industry as a whole is expected to grow 17.5 percent during the same period according to Newzoo.
- G5 earns a majority of total revenues in Hidden Object games. G5 has found its niche within the target group of women aged 35 years and older. According to research, this target group is loyal, affluent and women usually make more in-app purchases than men.
- Around 50% of total revenue comes from North America and 30% comes from Japan. Japan is a country where the Average Revenue per User (ARPU) is the highest in the world. We believe a higher market share in Asia is one of G5's biggest growth driver the coming years.

EBIT margin increases

The company has began to focus on self-developed games. In the last months three G5 has acquired three games in its portfolio that was earlier licensed games. With 9 million monthly active users, the company has a golden opportunity to cross-promote similar proprietary games. One of the benefits with fully owned games is that the company does not have to pay any royalties to the developer, which means that the profitability will increase when the proportion of revenue from fully owned gaming increases. Today the only licensed game in the portfolio is Hidden City, its highest grossing game.

Increased market share

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

Investment risks

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

Mobile games have limited life cycles. It is therefore important to a gaming developer/publisher to deliver new attractive content when old titles reach maturity. The high growth in the industry could also attract competitors to make similar games to G5's.

Catalyst types

Big in Japan

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

Low diversification in games portfolio

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

Ebit-margin gradually goes up

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

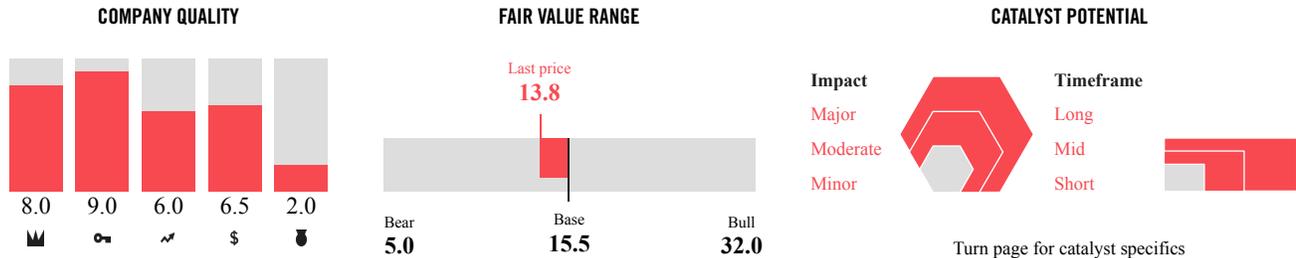
Increased market shares from smartphones

Revenues from the mobile phone segment is expected to increase.

Personal notes

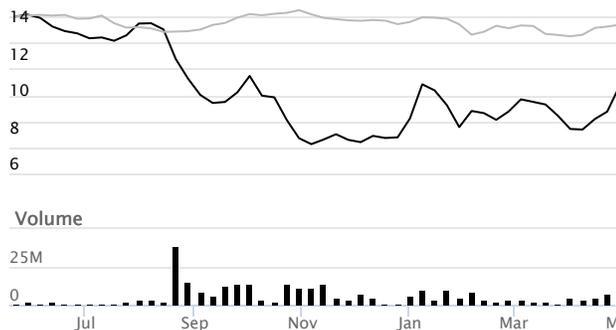
Redeye Rating

👑 Leadership
🏠 Ownership
📈 Profit outlook
💰 Profitability
🛡️ Capital strength



Snapshot

Starbreeze
OMXS30



Marketplace	NASDAQ Stockholm
CEO	Bo Andersson Klint
Chairman	Michael Hjort
Share information	
Share price (SEK)	13.8
Number of shares (M)	324.0
Market cap (MSEK)	4,412
Net debt (MSEK)	-616

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

	2016	2017	2018E	2019E	2020E
Revenue, MSEK	345	362	1,110	1,247	1,969
Growth	58.2%	4.8%	>100%	12.3%	57.9%
EBITDA	81	-54	322	587	809
EBITDA margin	23.5%	Neg	29.0%	47.1%	41.1%
EBIT	56	-152	155	318	433
EBIT margin	16.3%	Neg	13.9%	25.5%	22.0%
Pre-tax earnings	56	-154	137	317	432
Net earnings	57	-137	96	270	337
Net margin	16.5%	Neg	8.6%	21.6%	17.1%
Dividend/Share	0.00	0.00	0.00	0.00	0.00
EPS adj.	0.00	-0.43	0.30	0.85	1.06
P/E adj.	N/A	-32.0	45.7	16.2	13.0
EV/S	-1.2	15.1	1.8	3.0	1.8
EV/EBITDA	-5.0	-100.4	6.2	6.3	4.3

Last updated: 2018-04-23

Owner	Equity	Votes
Första AP-fonden	10.9%	4.0%
Swedbank Robur Fonder	10.5%	4.4%
Avanza Pension	8.7%	6.5%
Bo Andersson Klint	8.4%	24.7%
Smilegate Holdings Inc.	3.4%	5.1%
Nordnet Pensionsförsäkring	1.6%	1.3%
Catella Fonder	1.0%	0.4%
Michael Hjort	0.8%	2.0%
Handelsbanken Fonder	0.6%	0.2%
Livförsäkringsbolaget Skandia	0.6%	0.5%

Company description

Starbreeze currently has three business areas: Starbreeze Games, Publishing and VR Tech & Operations (Virtual Reality).

Starbreeze Games has been the core business since the company was founded in the late 90s. In 2012-2013, the company began to internally finance the development of its own games, which was a very successful strategy. The keys to success were Payday 2 and the acquired company Overkill Software: the company's profits skyrocketed overnight when Payday 2 was released. Since then, the same game has generated good cash flows for more than four years. In the meantime, Starbreeze Games has been developing new games, and two potential mega-blockbusters are in the pipeline.

In the company's Publishing business area, Starbreeze finances game development by external studios and markets and distributes the games. The business area has been operating for two or three years. As for the two biggest games, Dead by Daylight was a commercial hit and RAID: World War II was a flop. But the hit has generated substantial revenues and the flop was not excessively costly. At the moment, two major titles are in development, both of which ooze quality, and both of which are sequels to already strong brands. Starbreeze also publishes a lot of VR content and games and is investing long-term in VR. It all started with Starbreeze's investment in technical hardware, which then led to StarVR Corp, a joint venture with Acer. However, the company's focus is actually not on hardware, but on development and investment in content for the game and film industries. The premium experience in the next few years is expected to be found in location-based VR, where a large share of the market is expected to be in the next 2-5 years. Starbreeze has invested extensively in VR tech while building a platform that has made them first-movers and pioneers in the field.

Investment case

- OVERKILL's The Walking Dead ("OTWD") game will initially rake in about SEK 680 million and sustain its annual revenue level for at least three years thereafter.
- Project Crossfire is a western version of Crossfire, which has been the most popular first-person shooter (FPS) game in Asia (and thus the world) for several years. The game is expected to become Starbreeze's second-most important source of revenue of 2020.
- Starbreeze's publishing business is going to expand its games portfolio with potential gold nuggets, leading to much-needed diversification and stable cash flows over time with good profitability. This is expected to generate 20-30% of revenues in 2018 and 2019.

The Walking Dead was the highest-rated TV series in the world in 2014. The fact that the creators selected Starbreeze that very same year as the developer/publisher of the brand's high-budget game says a lot about the company's creative and business-driven talent. It is at least equally impressive that the developer behind the world's second highest revenue-generating game chose Starbreeze to take it to the western market. With its Payday 2 game, Starbreeze proved that it is one of a few western game developers to have understood how to use the "Game As A Service" business model to generate revenues linked to a single game title year after year. Starbreeze has established good business relationships in the US film industry that have led to many prestigious partnerships over the years, and more are likely to come. These four points are essential to understanding the company's long-term competitive advantages that are going to be creating value for many years ahead.

Catalyst types

Big potential in "publishing"

Starbreeze will be publishing a number of interesting games in the next few years via its relatively new business area, Publishing. Psychonauts 2 is coming in 2019 and System Shock 3 is expected at the first half of 2020. Both game series were critically acclaimed and beloved when the predecessors were released 12-18 years ago. The game creators behind both titles are involved this time as well, which is reassuring.

Overkill's the walking dead

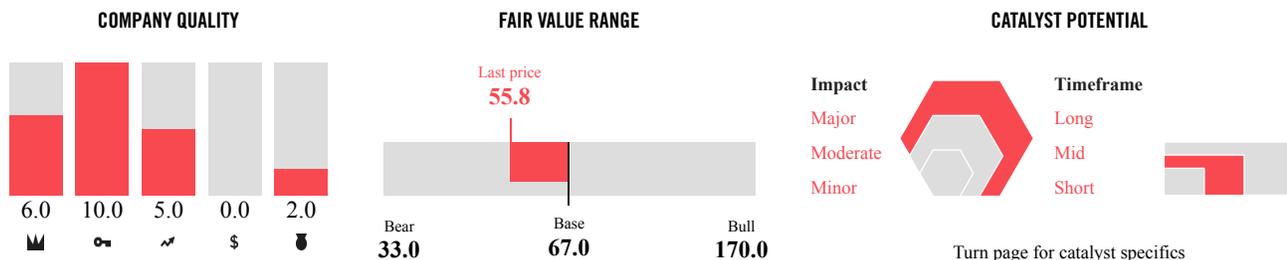
Starbreeze is expected to release its biggest game ever in the autumn of 2018, based on one of the most popular media brands of all time: The Walking Dead. The stock market's hopes for the game are already believed high, though, and there is risk that sales of about 1.5 million copies in the first three months will be considered a disappointment, as this is in line with the company's earlier Payday 2 game, whose starting position was considerably less advantageous. We expect the game to generate SEK 2 billion for Starbreeze over three years, or about 50 percent of the company's total revenues during that period.

Project crossfire

Project Crossfire is a western version of Crossfire, which has been the most popular first-person shooter (FPS) game in Asia (and thus the world) for several years. Crossfire has 650 million registered users and an average of eight million concurrent users playing the game online. Crossfire is "free-to-play" in Asia, and generated revenues of SEK 9.4 billion in 2016. The game developer, Korean Smilegate, has previously attempted to penetrate the western market without much success. For that reason, Smilegate has now selected Starbreeze as the developer to appeal to the western audience. Project Crossfire is expected to sell 2.6 million copies and give Starbreeze revenues of about SEK 644 million. Game revenues have the potential to deliver significant growth in the second year as well, if the companies' joint strategy is a success. We believe Project Crossfire may have better revenue potential than Starbreeze's VR content within 2-3 years, which the stock market has not understood.

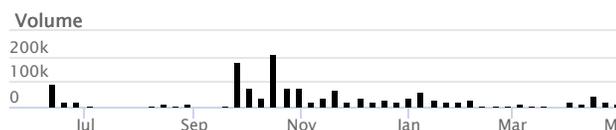
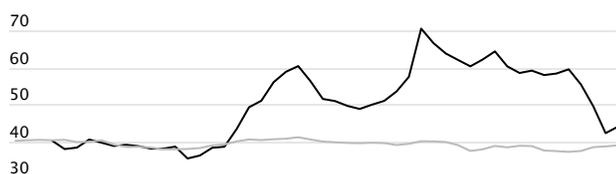
Redeye Rating

👑 Leadership
🏠 Ownership
📈 Profit outlook
💰 Profitability
🏦 Capital strength



Snapshot

Nitro Games
OMXS30



Marketplace	First North Stockholm
CEO	Jussi Tähtinen
Chairman	Antti Villanen
Share information	
Share price (SEK)	55.8
Number of shares (M)	2.3
Market cap (MSEK)	132
Net debt (MSEK)	2

Analyst



Tomas Otterbeck
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Conflict of interests

Tomas Otterbeck owns shares in Nitro Games: **Yes**
Redeye performs/have performed services for the Company and receives/have received compensation from the Company in connection with this.

Financials

			Redeye Estimates		
	2016	2017	2018E	2019E	2020E
Revenue, MSEK	1	2	3	6	9
Growth	-55.9%	>100%	93.6%	74.3%	54.3%
EBITDA	-1	-2	-2	-2	1
EBITDA margin	Neg	Neg	Neg	Neg	8.0%
EBIT	-1	-3	-3	-2	1
EBIT margin	Neg	Neg	Neg	Neg	7.4%
Pre-tax earnings	-1	-3	-3	-2	1
Net earnings	-1	-3	-3	-1	1
Net margin	Neg	Neg	Neg	Neg	5.7%
Dividend/Share	0.00	0.00	0.00	0.00	0.00
EPS adj.	-0.74	-1.41	-1.40	-0.53	0.22
P/E adj.	-75.3	-39.6	-39.8	-105.9	253.2
EV/S	98.6	54.6	40.9	23.4	15.2
EV/EBITDA	-142.5	-51.1	-55.2	-89.0	190.4

Last updated: 2018-05-07

Owner	Equity	Votes
Jacob Ehnrooth	17.6%	17.6%
Savox Investments S.A. (Ehnrooth)	14.7%	14.7%
Swedbank Robur Fonder	9.7%	9.7%
Antti Villanen	5.6%	5.6%
Feat Invest AB (Biehl)	5.4%	5.4%
Ajoranta Group AB	5.0%	5.0%
Avanza Pension	4.9%	4.9%
Luxus Micro Cap S.A	3.9%	3.9%
Jussi Tähtinen	3.1%	3.1%
Carl Johan Biehl	2.5%	2.5%

Company description

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

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

Investment case

- If the game becomes successful the partnership agreement with Wargaming could generate stable income (royalty) for Nitro Games the coming years. This deal could have an significant impact on future earnings.
- The most interesting thing announced in the partnership with Netmarble is the fact that Netmarble will have rights of first refusal for publishing in Asia. At this point a deepened partnership of this kind is likely and have a potential initial revenue of EUR 0.8-1.2 million.
- Nitro Games first released game “Medals of War” shows at this early stage promising KPI’s. The game has good loyalty-metrics (called retention) and is estimated to have healthy monetization, meaning average acquired users is profitable.

Nitro Games has a long history of stable cash flows from developing contracts from bigger publishers which minimise risk in the business model. Currently a majority of Nitro Games 30 employees are working with a mobile game that will be published by Wargaming.net, the creators of “World of Tanks” the seventh highest grossing game on PC in 2016. The game has been one of the most successful free to play PC-games for several years.

The third-party game development services described above is expected to grow steadily the next coming years, this alone creates a high underlying value in the company which justifies about half the existing market cap.

Nitro Games second business area is developing and publishing mobile games. Nitro Games has adapted its business model closely after market conditions. One of the biggest values in Nitro Games is the self-developed NG Platform. The platform has been in development for over 4 years. With the NG Platform combined with a proven creative process Nitro Games can launch a mobile game in 5-10 months, typically this takes 6-18 months for most other mobile game companies. Therefore Nitro Games can minimise the amount of time and money spent in every single project minimising risk.

The NG Platform combined with Nitro Games creative-process, and the overall experienced personnel is the company’s biggest competitive advantage. Nitro Games two last games have both been selected by Apple as an editor’s pick which is unusual and a proof of quality in the products developed by the company.

Nitro Games and Netmarble EMEA have signed a Game Distribution and Servicing Agreement recently. We believe the stock market do not understand the potential long term value of this agreement. Netmarble is the highest grossing mobile games publisher in Korea. In China and Japan, the publisher’s games are top 5 amongst the highest grossing games.

Investment risks

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

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

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

Catalyst types

More cash from wargaming

April 5 2018 Nitro Games announced a new publishing agreement with Wargaming as a natural step after the earlier game development agreement between the two parties. The most important value in this deal is that the game will be released, which is a proof that Nitro Games can make world-class mobile games. The estimated value of the development deal until the commercial launch is EUR 1.35 million which will secure a larger part of the cash flow in 2018. The profit share in the Wargaming-game will be an important revenue driver in 2019.

The gateway to asia

Currently the agreement with Netmarble only applies to the game “Medals of War” for publishing in Turkey, Middle-East and Africa. The publishing deal generated an initial revenue of EUR 0.2 million for Nitro Games. However the most interesting thing announced in this partnership is the fact that Netmarble will have rights of first refusal for publishing in Asia, including China, Japan and Korea which is the biggest and fastest growing markets amongst mobile games. So a big potential catalyst for the stock is of course if new publishing deals for those countries would be signed. At this point a deepened partnership of this kind is likely and have a potential initial revenue of EUR 0.8-1.2 million. We believe a deal of this kind is possible, which in this case means a profitability of 30-40 percent.

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