Equity Research

Gaming Innovation Group

Buy | Company Update | Leisure | Norway | 23 May 2018

Date and time of decision to initiate recommendation: 23 May 2018, 13:13 CET

Let the game begin

After a period of heavy investments, front-end loaded marketing, and building the organisation, we believe Gaming Innovation Group (GiG) is set to reap the rewards of these efforts. Continued strong top line momentum should generate strong EBITDA and ultimately EPS; however, we believe this is not yet recognised by the market. We initiate coverage with a Buy recommendation and a target price of NOK 6.10.

Strong growth potential driven by investments in technology and products

Over the past few years, Gaming Innovation Group (GiG) has actively expanded its portfolio of companies in all segments of the online gambling (iGaming) value chain, and expanded its in-house capabilities. We believe the company will reap the rewards of this aggressive growth. We initiate coverage with a Buy recommendation and a target price of NOK 6.10 based on a SOTP and DCF valuation.

This is a tech company, with corresponding margins

Although commonly put in context with the iGaming industry, we believe that GiG should be viewed as a high-tech company, with corresponding margins. We believe the focus ahead will be on strengthening the B2B segments, and using the B2C segment to improve its B2B-offering. With the shift towards the more high-tech B2B-segments, we forecast group EBITDA margin of 17% in 2018, 28% in 2019, and 31% in 2020. This is supported by previous front-end loaded marketing and hiring, leading to rapid margin.

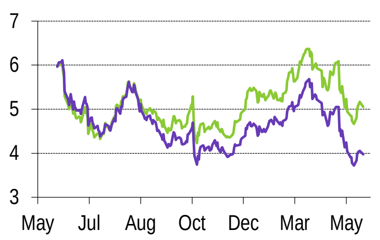
Attractive entry point as concerns of Norwegian anti-iGaming act looms

We find the current valuation an attractive entry point, particularly after the weak performance in the wake of the Norwegian regulator's proposal for limiting actions for offshore gambling companies. On our estimates and current stock price, the company trades at 2019 PER of 14.6x and 2020 PER of 9.9x.

Key Data (2018E)

Price (NOK)	5.05
Target price (NOK)	6.10
Recommendation	Buy
Risk	High
Reuters	GAMIG.OL
Bloomberg	GIG.NO
Market cap (NOKm)	4,523
Market cap (USDm)	562
Market cap (EURm)	477
Net debt (EURm)	49
Shares fully dil. (m)	895.7
Avg daily turnover (NOKm)	8.6
Free float	54%

Share Price (12M)



Absolute (green) / Relative to Norway (purple).

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Financials (EUR)

Year end: Dec	2016	2017	2018E	2019E	2020E
Revenues (m)	54	120	169	216	244
Adj. EBIT	3	2	10	41	56
Pre-tax profit (m)	3	1	8	37	54
EPS	0.00	(0.00)	0.01	0.04	0.05
Adj. EPS	0.00	(0.00)	0.01	0.04	0.05
DPS	0.00	0.00	0.00	0.00	0.00
Revenue growth (%)	n.m.	124.6	40.0	27.9	13.3
Adj. EBIT growth (%)	n.m.	(41.9)	502.7	326.3	36.7
Adj. EPS growth (%)	n.m.	n.m.	n.m.	370.4	47.3
Adj. EBIT margin (%)	5.2	1.3	5.8	19.2	23.1
ROE (%)	4.6	(0.4)	6.1	24.7	27.9
ROCE (%)	5.3	1.1	5.4	20.8	27.2
PER (x)	204.3	n.m.	68.7	14.6	9.9
Free cash flow yield (%)	n.a.	n.a.	1.3	7.3	10.4
Dividend yield (%)	0.0	0.0	0.0	0.0	0.0
P/BV (x)	2.04	4.13	4.12	3.22	2.43
EV/Sales (x)	3.90	4.18	3.12	2.28	1.81
EV/Adj. EBITDA (x)	35.9	40.3	18.3	8.1	5.9
EV/Adj. EBIT (x)	75.4	313.3	54.2	11.9	7.8
Operating cash flow/EV (%)	4.6	1.6	4.4	10.8	15.3
Net debt/Adj. EBITDA (x)	(1.04)	4.34	1.70	0.24	(0.47)

Source for all data on this page: SEB (estimates) and SIX/Thomson Reuters (prices)

Contents

Let the game begin

Time to reap the rewards of strong growth

After years of strong growth and heavy investments, we believe GiG should experience accelerating earnings and cash generation ahead. Continued strong revenue momentum should improve EBITDA and eventually EPS, as both marketing costs and opex/sales decline due to high operational leverage.

A greater degree of outsourcing

GiG offers services throughout the value chain, from fully owned operators (GiG Gaming) to affiliate marketing (GiG Media), to software platform solutions (GiG Core), and proprietary games and odds production (GiG Sports & Games). As more national markets re-regulate the iGaming sector, we believe the degree of outsourcing will increase. This is due to greater regulatory pressure, higher tax, and professionalization of the entire industry. We believe GiG holds a favourable position to capitalise on this situation, as the company is a consolidator with a strong offering in platform services, affiliate services, operators, and soon to be games and sportsbook services.

Why this business model makes sense

We have identified multiple synergy effects of owning and operating throughout the entire iGaming value chain. First, hands on experience as both a software provider (platform/games/odds) and software client (operator) yields unique insight when optimising the software offering to external B2B clients. Second, cross-selling synergies exist when the company offers the entire infrastructure. Third, the “Big Data” generated throughout GiG’s ecosystem places the company in a strong position to develop its own odds and, in particular, games. The company can utilise large amounts of data gathered through its ecosystem to create value added products for the end-user, B2B clients, and its own business.

Group margins driven by focus on B2

The B2C segment has historically been the revenue engine in the company, constituting around 80% of revenues. We forecast that this will change – B2B will steadily increase its share of total revenues. This is crucial for the investment case, as the majority of value lies in the high margin Affiliate, Platform and Sports & Games segments. Through this shift, GiG increasingly becomes a technology company and less of a gambling operator. We forecast group EBITDA margins of 17% in 2018, 28% in 2019, and 31% in 2020. This is above pure-play operators, but below comparable peers in the Affiliate, Platform, and Sports & Games segments.

Attractive entry point

In late April 2018, the Norwegian opposition (in the majority) introduced further strengthening of the state monopoly’s position. We believe the market overreacted in terms of stock underperformance, and we view this as a buying opportunity. On our estimates, the stock currently trades at 14.6x 2019E PER, 9.9x 2020E PER, and 8.7x 2019E EV/EBITDA and 6.9x 2020E EV/EBITDA. Based on projected growth and margin expansion, we find the risk-reward appealing.

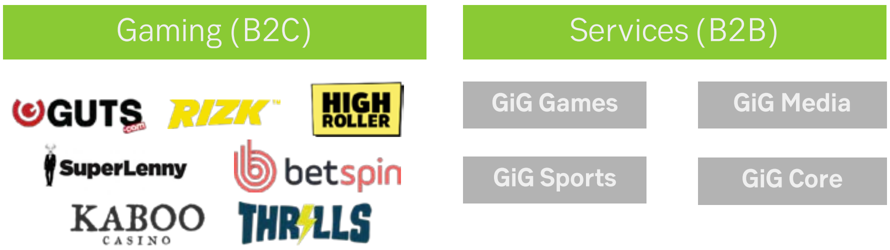
Company overview

In Q1 2018, the company confirmed that it is considering a move from the Oslo Stock Exchange to the Stockholm Stock Exchange, which was widely expected by the market. The rationale for the move in listing is a knowledgeable investor base in Sweden and to place the company closer to its peers. If the move goes ahead, we believe it will occur sometime in H1 2019.

Gaming Innovation Group (GiG) divides its operations into two broad categories – Services (Business-to-Business) and Gaming (Business-to-Consumer). Furthermore, GiG splits its ecosystem into:

- GiG Media (B2B) – digital marketing and lead generation.
- GiG Core (B2B) – proprietary cloud based platform service.
- GiG Sports and Games Services (B2B) – odds and casino games.
- GiG Gaming (B2C) – seven operators offering casino, sportsbook and poker to end users.

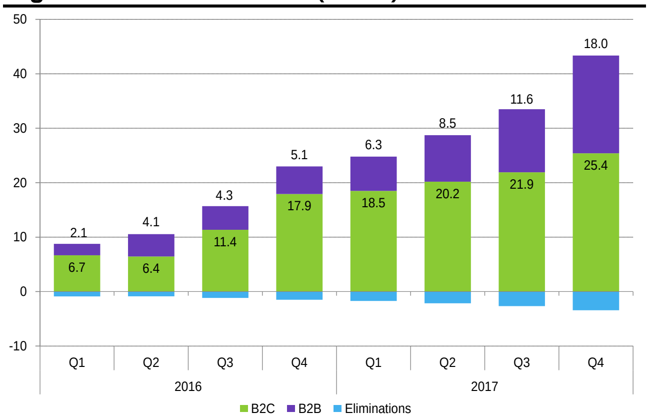
Company overview



Source: GiG, SEB

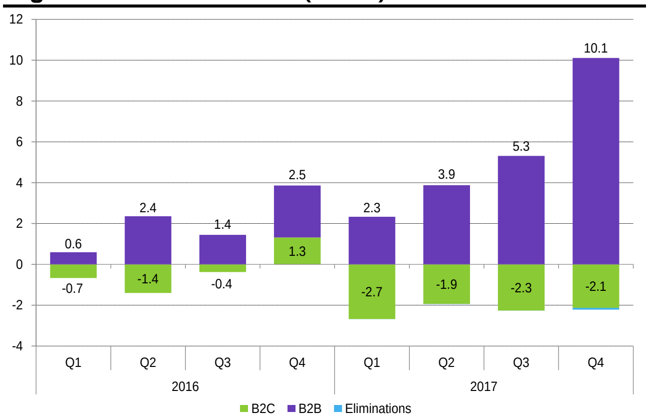
In terms of revenue, the B2C segment is the largest contributor. However, high COGS and marketing costs take a toll on the margins, leading to a negative EBITDA contribution from the segment in seven out of the past eight quarters. Despite the negative contribution from the operators, GiG reported EBITDA of EUR 5.8min 2016 and EUR 12.5m in 2017 due to the positive contribution from the B2B segment. Here, the EBITDA margin was between 28% and 58% from Q1 2016 to Q4 2017.

Segment financials: Revenue (EURm)



Source: GiG

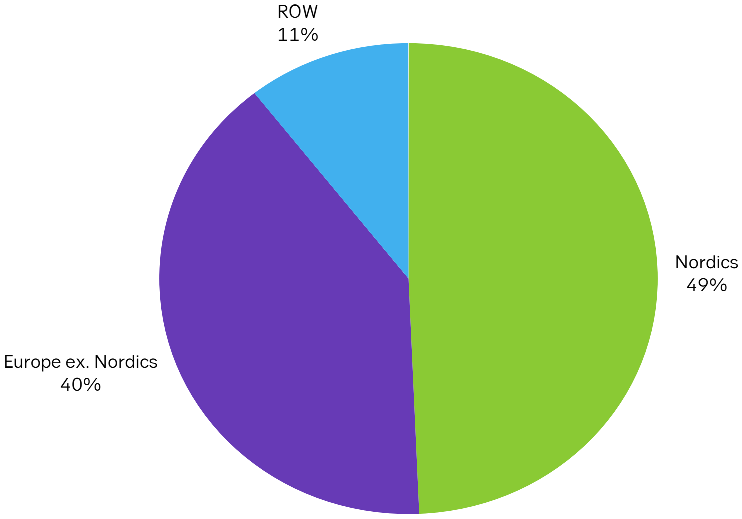
Segment financials: EBITDA (EURm)



Source: GiG

The company defines its core markets as the Nordics, Western Europe, and Central Europe. In 2017, 89% of revenues came from these markets. Within the largest market (the Nordics), Sweden has the largest share, followed by Norway.

Revenue by region (2017)



Source: GiG

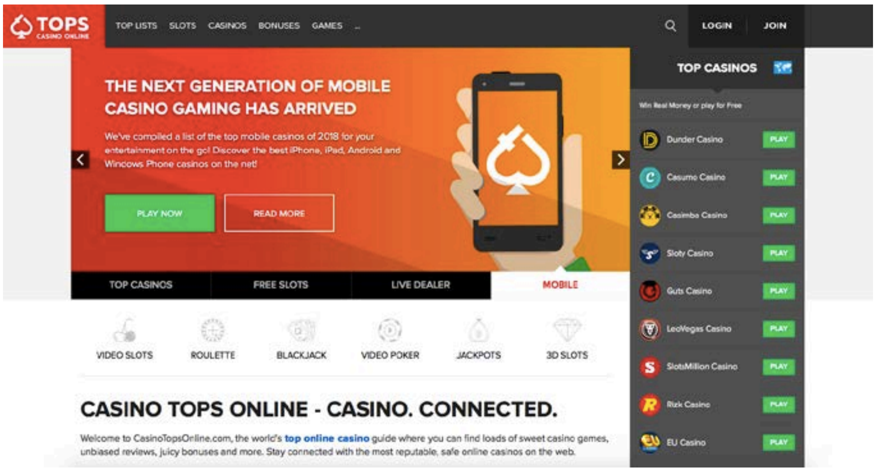
GiG's current strategy is to further develop its core market focus, and as a result transfer non-core players to external operators on the GiG Core platform. We expect the share of revenue from non-core markets to decline ahead. In the following, the different business areas will be described in detail.

GiG Media (B2B)

GiG directs customers to its own and partner sites

GiG Media finds leads that are referred to operators in return for a perpetual revenue share and/or a flat fee for each provided lead converted to a customer (FTD – First Time Depositors). End customers tend to pass through an affiliate site on their way to operators as they may want help finding the best bonus, specific gaming content, or the highest jackpot.

Example of affiliate site



Source: Casinotopsonline.com

Although a profitable business model in itself, the true potential lies in the strategic value. By expanding the digital reach and footprint, GiG can channel more users to its ecosystem of clients and services, creating a network effect and scale advantage for all.

GiG Media: Selected external partners

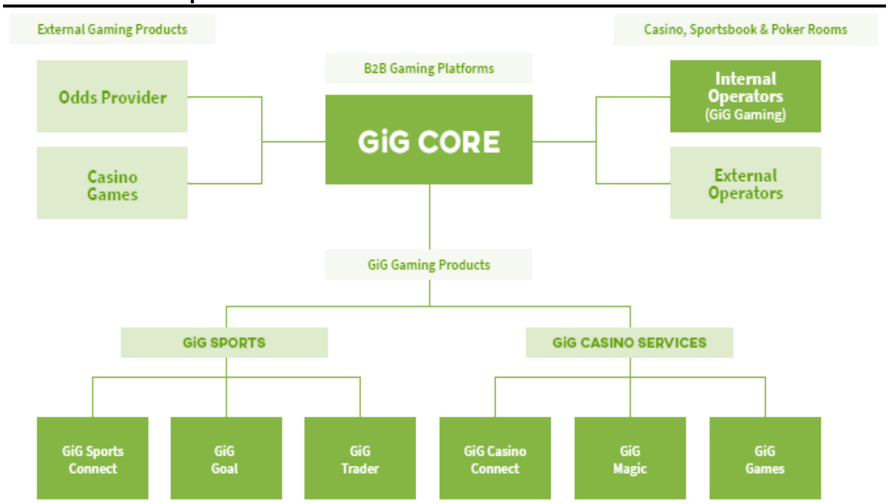
Source: GiG

GiG Core (B2B)

One-stop-shop for anyone who wants to start a gambling site

In 2015, GiG launched its cloud based platform service iGamingCloud. The product empowers operators with all the hardware, software, tools, features and integrations needed to start and operate an iGaming operator (B2C site). The product was previously labelled iGamingCloud and has now been renamed GiG Core. The name change is explained by the growing number of services offered independently or as a platform bundle. In addition to selling the product as software as a service (SaaS) to external operators, GiG Core is utilised by GiG's own B2C sites.

GiG Core – Conceptual sketch



Source: GiG

Both scale and network effects

The business model works as follows: by connecting multiple operators to the platform, the cost of development is divided on all and creates scalability. The solution produces a network effect where single operators can benefit from a sharing economy. More operators contribute to an increasingly powerful offering. It is the leverage of the platform which provides the operator or the supplier with the edge.

The business model consists of recurring revenue share – contracting and reselling the services of the suppliers. The more revenues brought through the sharing economy model, the better rates are procured. With better rates, better price points can be offered and thus attract increasingly larger clients. By channelling users from the lead generation in GiG Media to the platform clients in GiG Core, GiG captures more of the customer wallet, whilst driving distribution and growth for its partners and suppliers. GiG first earns from the market rates being paid for the referred traffic, then from the mark-up charged when a user is playing with one of the platform clients. Finally, suppliers see increased volumes which help to reduce their payments to GiG and as such cost of sales are decreasing as a proportion of revenues.

GiG Sports and Games (B2B)

GiG is currently developing games services for both sports betting and casino – odds for sportsbooks and games for casino operators. Games and odds services are sold on a license, and can be plugged directly into the consumer interface of any operator. These are core investment areas to complete the ecosystem. By offering its own games and odds, GiG can capture a larger part of the customer wallet. Operators who are using their own platform can connect to the ecosystem by integrating directly to GiG's odds or game feeds, i.e. it is not a prerequisite that the customer is a GiG Core customer.

In-house odds generation in place by June 2018

GiG is using "Big Data", models, and computer algorithms, as well as aggregating third party odds to generate its odds. These odds will be displayed at GIG's internal brands and sold to external clients. The offering includes odds, as well as the front-end design, and the full range of back office features needed to operate a sportsbook. The business model will include revenue share and flat fees, and GiG states that it will aggressively reduce current charges to suppliers, increasing profitability for its clients. The service will be launched on GiG's own operator, Rizk.com, ahead of the FIFA Football World Cup starting in June 2018, followed by sales to B2B clients in H2 2018.

In-house games development will be launched in Q3 2018

GiG has developed a remote gaming server (RGS) and a games engine. The RGS allows GiG to design, host, and distribute in-house developed games and third party games to any operator, irrespective of whether it is integrated to GiG Core. A range of games are currently being developed with planned release in Q3 2018. These include table games, such as blackjack and roulette, as well as slots, where the games will be offered on a revenue share basis.

The market for games and odds supply is highly competitive, and there is a risk that GiG will not be able to penetrate this market. Players such as NetEnt, Kambi, and Evolution Gaming deliver popular products that are difficult to compete with. Our understanding is that the cash-burn per month is currently EUR 0.5m, and a prolonged investment period without results could push cash generation for the group further into 2019.

GiG Gaming (B2C)

GiG Gaming has seven consumer-facing brands offering casino games, odds, and poker tables. The brands are used to test and display the capabilities of the platform (GiG Core), to connect users and marketing partners to the company's ecosystem, and to keep the know-how of being an operator when designing B2B services.

GiG B2C offering

GUTS.com
HIGH ROLLER
RIZK
KABOO CASINO
THRILLS
SuperLenny
betspin

Source: GiG, SEB

Company history in brief

The company has grown rapidly through M&A and organic growth, but some M&A activity stands out as significant influencers, shaping the GiG of today.

Brief company history

2012
GIG founded

May 2013
Guts.com launched

Jan 2015
iGC launched
Acquired NIO
Betspin launched

Feb 2015
Spaseeba acquired

June 2015
Listed on OSI

Sept 2015
First B2B clien
live: InstaCasior

Jan 2016
Rizk.com launche

Mar 2016
Acquired OddsModelAS

Sept 2016
Acquired BetIT

Feb 2017
Acquired undisclosed affiliate - additional 8.500 FTDs

Mar 2017
Acquired Casinotopsonline.cor - additional 25.000 FTDs

Apr 2017
Acquired DACH region network- additional 5.000 FTDs

Jul 2017
Acquired Stk Marketing

Sept 2017
Acquired Rebel Penguin

Nov 2017
Highroller.com launched
Launch of gamesprovider "GiG Games" in Marbella

Mar 2018
Acquired Nordbet, holding sports betting licence in Schleswig Holstein

Source: Atea, SEB

NIO and GIG merge

In April 2014, Nio and GiG merged to form the GiG of today. The previous main activity in Nio (internet auction set-up) was terminated and the organisational infrastructure and systems related to this business were sold. From this point, the sole focus of the company was within the iGaming industry. Former management in GiG stayed on as management in the new company.

OddsModel

Acquired from Norwegian entrepreneurs in March 2016, OddsModel developed software used for automated and manual pricing of global betting markets. The company produced data utilised to generate real-time pricing of pre-match and in-play sports events through the use of quantitative methods and proprietary analytical models, which are complementary to third party odds providers. The acquisition was strategically important, as sports betting is the largest vertical within the online gambling industry.

BetIt

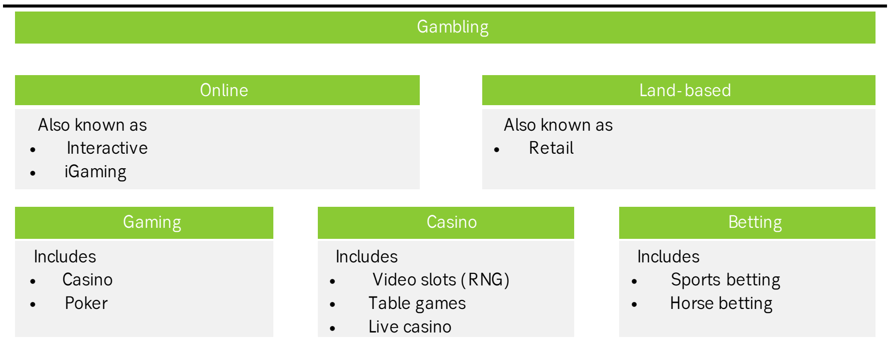
With the merger of GiG and BetIt, the combined entity doubled its operator offering, increasing from three to six brands (now seven). BetIt's proprietary front-end platform enabled synergies between the brands and provided greater marketing capabilities, such as innovative gamification and CRM features, in addition to providing an improved mobile product for all brands. The latter is crucial, as the drive towards a mobile offering has been one of the most significant trends in the industry over the past couple of years (described in greater detail below). The merger consolidated the ownership of iGamingCloud (now: GiG Core), as BetIt held a 10% minority interest in the iGC.

Market description

Principal markets

There are a number of different segments within the gambling industry, and for clarity the figure below defines the names by which these are referred. *Gambling* is the overarching term used to include all land-based and online forms of gambling, games of chance, etc. However, *gaming* excludes both bingo and betting. Furthermore, *casino* includes video slots (RNG), table games and live casino, while *betting* consists of sports and horse betting.

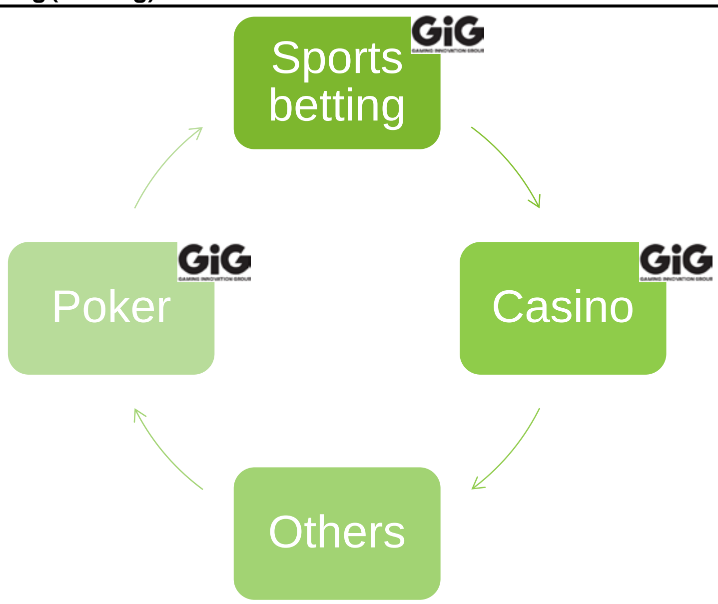
Market definitions



Source: SEB, H2

The online gambling market comprises gambling on both desktops and mobile devices, and is broadly divided into four categories – sports betting, online casinos, poker, and other games (i.e. lotteries). GiG is currently active in the sports betting, online casino, and poker submarkets, exposing it to 73% of the European online gambling market in 2016 measured after gross gambling revenue (player bets minus player wins, minus player compensations and bonuses).

Online gaming (iGaming) market



Source: SEB

Value chain

The value chain is straightforward – B2B companies, such as games and sportsbook suppliers (e.g. Kambi and Evolution Gaming) licence their generic and customised solutions to gaming operators with a revenue share commission model, enabling significant operating scalability. The gambling operators, such as Unibet, LeoVegas and William Hill, provide these services to consumers. In order to attract new customers, operators often work with customer suppliers/affiliates (typically operating on a revenue share agreement). Players tend to pass through an affiliate site on their way to operators as they may want help finding the best bonus, specific gaming content, or the highest jackpot.

Value chain

Source: SEB

GiG – soon to be 100% integrated through the value chain

As the chart shows, GiG is present along (almost) the entire value chain. Within Platform Suppliers, GiG Core offers a proprietary cloud-based platform service. GiG Media is a Customer Supplier and GiG's seven own brands represent the Operator element of the value chain. When GiG Sports and Games are fully operational, GiG will be a Games and Sportsbook Supplier, and correspondingly be 100% integrated through the value chain.

Competition

GiG Gaming (B2C)

Different competitors in different geographical areas

GiG Operator's main competitors are other online gaming operators, especially those with a strong position in the Northern Europe, which are the main markets of GiG. These include established multiproduct operators Unibet, Betsson, and PAF, as well as niche casino operators such as Mr. Green, Leo Vegas, Vera&John and Casumo. As GiG will expand geographically, the list of competitors will potentially include operators strong in other markets, such as Bwin.Party and Bet-at-home (Central and Eastern Europe) or Bet365, William Hill and Betfair (United Kingdom).

Selected B2C competitors

Source: GiG, SEB

For a comprehensive competitor analysis on the B2C segment, we refer to the initiation of coverage of Mr. Green (17 July 2017, *Green light ahead*).

Different competitors within the different business areas

GiG Core, Media and Sports & Games (B2B)

Within the B2B segments, GiG Core's main competitors include NYX/SG Digital, Every Matrix, Playtech, Comtrade and Kambi for Sports; Bet Construct and Bede for Gaming, while GiG Media's main competitors include Catena Media and XL Media, as well as several local players. Furthermore, several of the large listed operators, i.e. Betsson and LeoVegas, manage their own platforms.

Selected B2B competitors

GiG Core and GiG Sports & Games	GiG Media
SG SCIENTIFIC GAMES, Every Matrix, Kambi, playtech, COMTRADE GAMING	catenamedia, XLMEDIA

Source: SEB

SG Digital (merger between NYX and SG Interactive) supplies both products and platform services to operators. Its portfolio consists of over 2,000 games, utilised by well-known names such as Betsson, William Hill, Coral and Mr. Green.

EveryMatrix offers a wide spectrum of software to the iGaming industry. The company offers sportsbook through OddsMatrix, casino content through CasinoEngine, gaming management platform through GamMatrix, payment solutions through MoneyMatrix, and affiliate services through PartnerMatrix. The company had revenues of EUR 57.6m in 2016, almost the same as GiG.

Playtech is listed on the London Stock Exchange Main Market, and is the world's largest online gaming software company with revenues of EUR 713m and net income of EUR 220m in 2017. The company's offering includes application software for casino, poker, bingo, sports betting, live gaming and lottery. Playtech currently employs over 5,000 people and has its headquarters in the Isle of Man, but operates out of 17 offices worldwide.

Kambi is a B2B software development company, supplying fully managed sports betting services to B2C operators. The company's product offering covers front-end to odds compiling and risk management. Kambi has 350 employees and the head office is in Malta. Kambi's customers include Kindred, 888 Sports, and LeoVegas.

Comtrade Gaming is an independent software provider, delivering open gaming platforms and professional services to both the online and land based gaming sectors. NetEnt and Microgaming are notable partners.

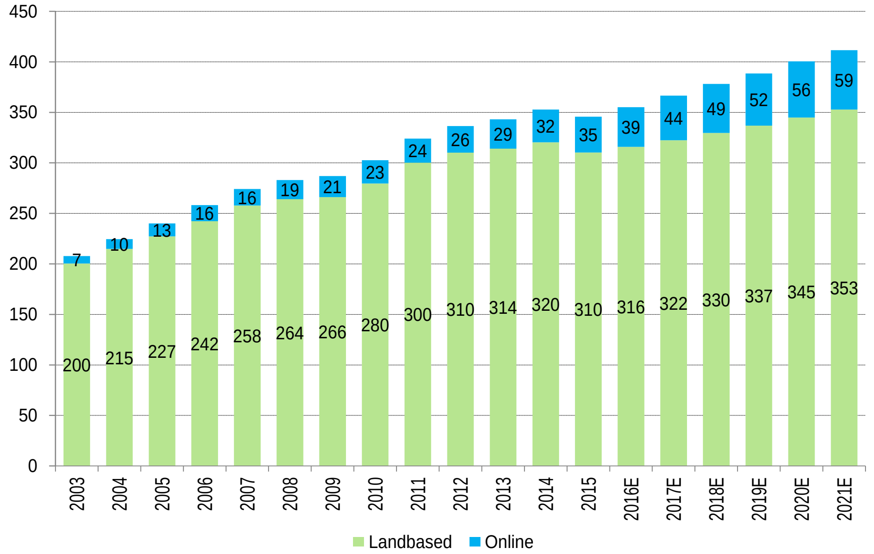
Catena Media provides marketing services for the online gaming industry. Its business concept is based on generating potential paying players to its business partners, primarily online gaming operators through a comprehensive product offering with a focus on high-quality content to attract potential players.

XLMedia engages in the provision of digital marketing services. XLMedia operates through the following segments – Publishing, Media, and Partner Network. The Publishing segment owns informational websites which refer potential customers to online businesses. The Media segment acquires online and mobile advertising campaigns. The Partner Network segment manages marketing partners, whose role is to direct online traffic.

The global gambling market

The global gambling market, including both land-based and online, was estimated by the industry leading research firm H2 Gambling Capital (H2GC) to be a EUR 366bn market in 2017. As the chart below shows, the gambling industry is a non-cyclical market, with a stable CAGR of 4.3% in 2003-15. Although a relatively small share of the total gambling market, online gambling has shown by far the greatest growth over the past couple of years, with double digit y-o-y growth rates in eight of the last 10 years, and a CAGR of 14.4% over the period.

Global gambling market (EURbn)



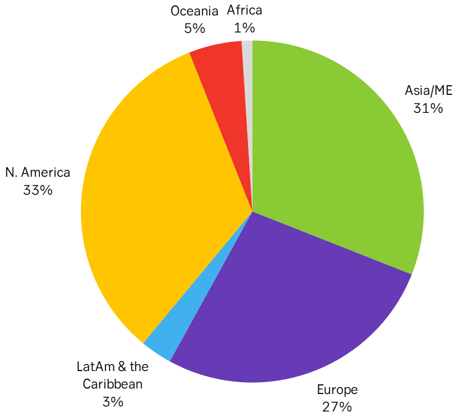
Source: H2GC

Asia and the Middle East (AME), North America, and Europe dominate the market with a total market share of approximately 90%. Between the markets, there are several structural differences.

- In Europe and AME, betting is significantly more popular than in the US, where casino is by far the largest vertical.
- The different verticals are to a larger degree equal in Europe and AME.
- The European market stands out as the most mature market when it comes to online gambling.

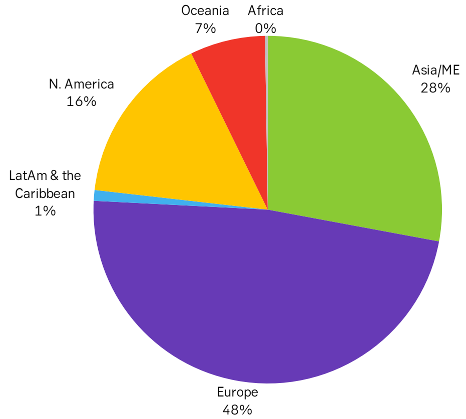
Europe's development into an online gambling powerhouse is reflected in its share of total online gross revenue. Although only 27% of global gambling revenue, Europe's online share is close to 50%.

Global total gambling gross revenue by region



Source: H2GC

Global online gambling gross revenue by region



Source: H2GC

The UK, Japan, China, and the US make up almost 50% of the global online gross gaming revenue (GGR). All of GiG's current and in the short-term targeted markets are within the global top 20 ranked after online GGR.

Top 20 nations ranked after online GGR

Nation	Gross Win (EURbn)	% of Global Total
United Kingdom	**5.73**	**17.1%**
Japan	4.10	12.2%
China (incl. SARs)	3.81	11.4%
United States	**2.79**	**8.3%**
Australia	1.98	5.9%
Italy	1.33	4.0%
France	1.28	3.8%
Germany	**1.19**	**3.5%**
Canada	0.91	2.7%
Sweden	**0.82**	**2.4%**
Ireland	**0.76**	**2.3%**
Finland	**0.64**	**1.9%**
South Korea	0.60	1.8%
Norway	**0.55**	**1.7%**
Spain	0.55	1.6%
Denmark	**0.52**	**1.6%**
Russia	0.34	1.0%
Greece	0.28	0.8%
Belgium	0.27	0.8%
Netherlands	**0.26**	**0.8%**

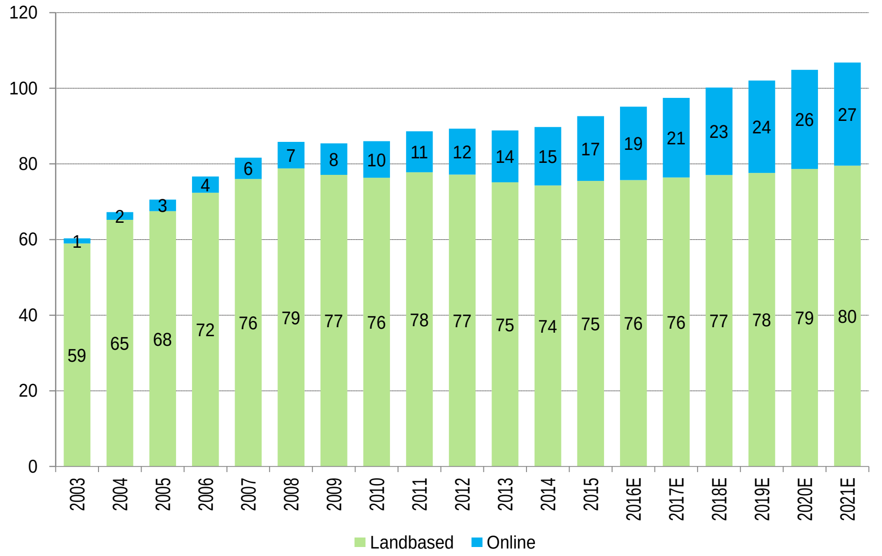
Source: H2GC

The European gambling market

Online has been, and will continue to be, the growth engine

The European gambling industry has been, and is forecasted to be, in a drive towards more online gambling. As displayed above, the European online gambling market is by far the most mature of the online gambling markets in the world. The land-based gambling market has been fairly stable over the past couple of years and the overall growth has come from the expansion of online gambling.

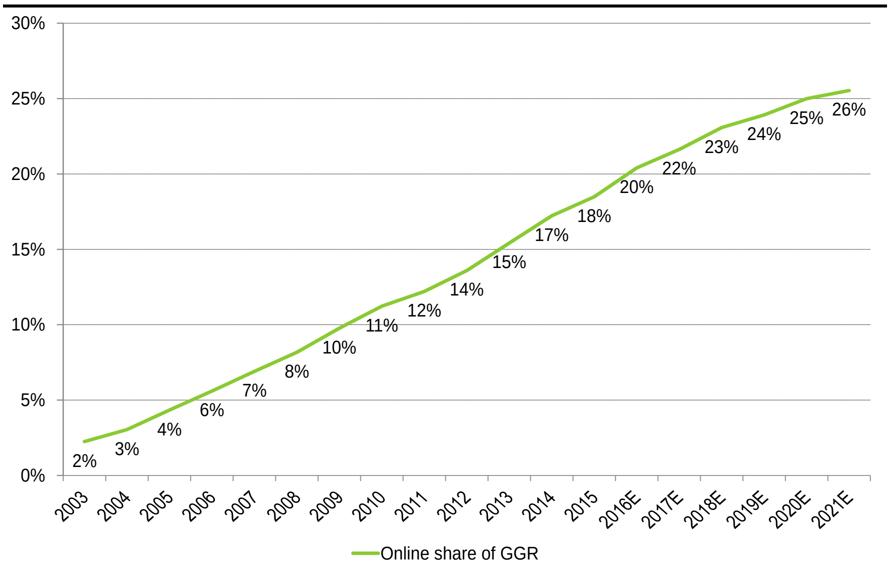
European gambling market (EURbn)



Source: H2GC

The European online gaming market has undergone strong structural growth, increasing from EUR 2.8bn in 2005 to EUR 15.1bn in 2015. Between 2010 and 2015, online gaming increased at a CAGR of 11.6% per year, while land-based gaming had no considerable growth. The growth of the online market is expected to remain fairly strong at a CAGR of 6.7% from 2018 to 2021 according to H2GC. More specifically, the growth is assumed to be mainly driven by sports betting and casino, while the market for poker is expected to remain stable. As the online market outgrows the land-based market, the online share will correspondingly increase, as displayed below.

Online share of total GGR

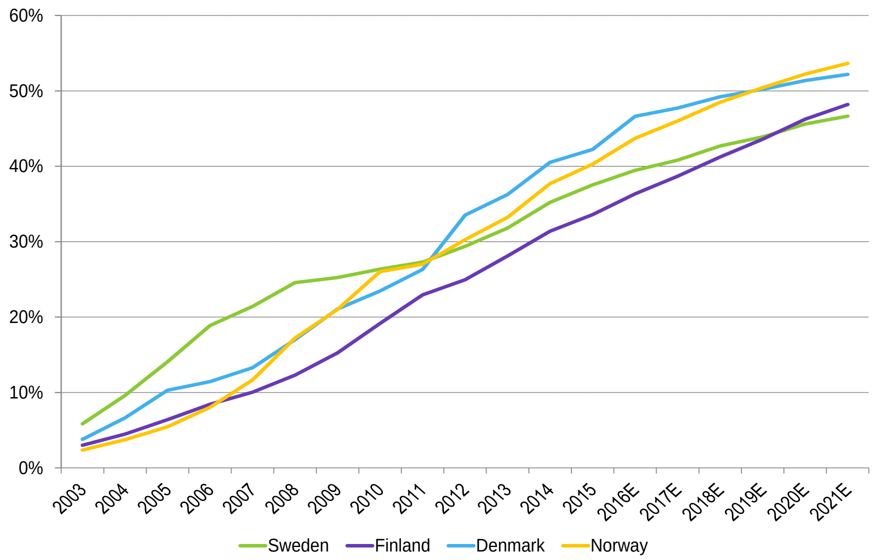


Source: H2GC

High Nordic online share, but more to come

GiG's most important market as of today (the Nordics) has a high degree of online share of total gambling, estimated by H2GC to be 43% on average in 2017. This is forecast to grow above 50% on average by 2021. The maturity of online gambling in the Nordics is, among other things, due to high quality internet infrastructure and high penetration of capable hardware, such as smartphones, computers, and tablets. In addition, the lack of largescale land-based casino yields a relatively high online share.

Share of total gambling that is online (Nordics)



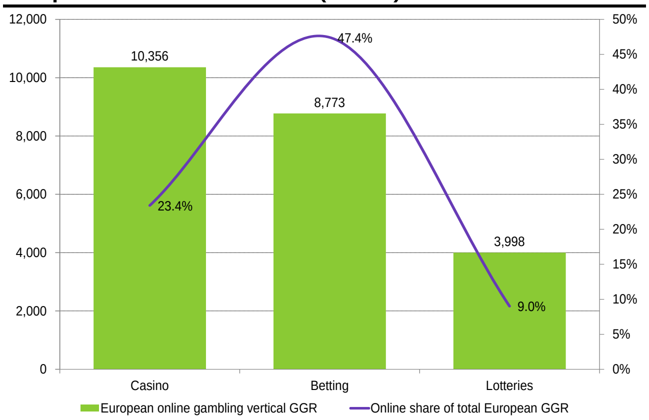
Source: H2GC

Major differences in online maturity between verticals…

…but the common denominator is the drive towards higher online share

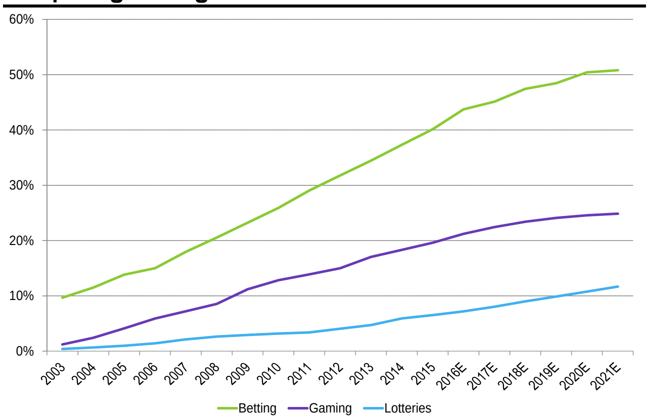
Across the different verticals, there are large differences in the degree of online maturity. Lotteries, and particularly state lotteries, have a relatively strong land-based standing in Europe, leading to a low online share of total GGR for lotteries. The betting vertical has the relatively highest online exposure, partly due to few betting stores outside the UK, correspondingly driving betting online. Despite the differences, the three verticals share a common denominator – the online market is expected to show an increasingly larger share of GGR for all verticals.

European online vertical GGR (EURm) and online share



Source: H2GC

European gambling verticals online share

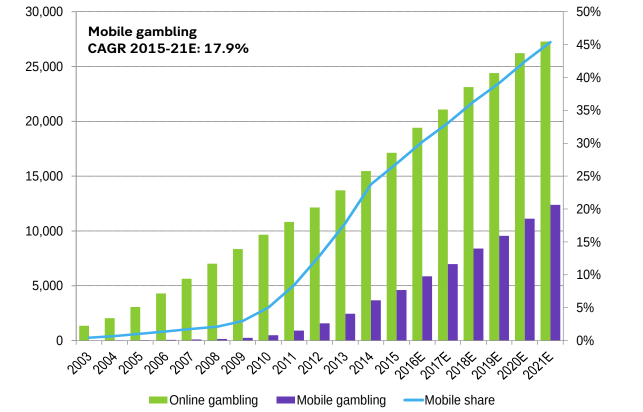


Source: H2GC

Mobile gambling set to have the highest relative online growth

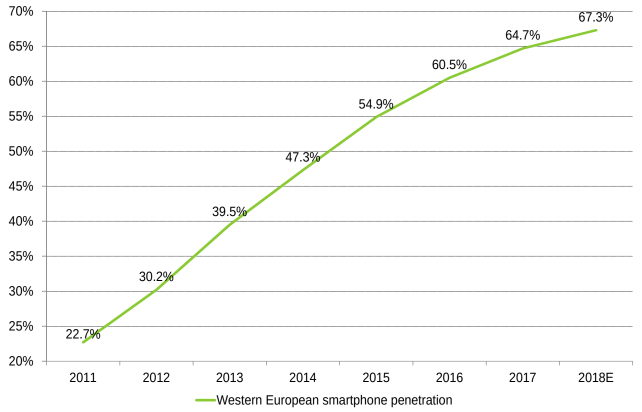
Within the online gambling sphere, mobile gambling on smartphones and tablets is expected to show the largest relative growth ahead. The relatively high degree of smartphone and tablet penetration, and time spent per day on mobile devices, are two of the factors driving the mobile shift, together with companies focused on being a pure mobile player such as LeoVegas.

Online and mobile gambling (EURm) and mobile share



Source: H2GC

Western European smartphone penetration



Source: Statista

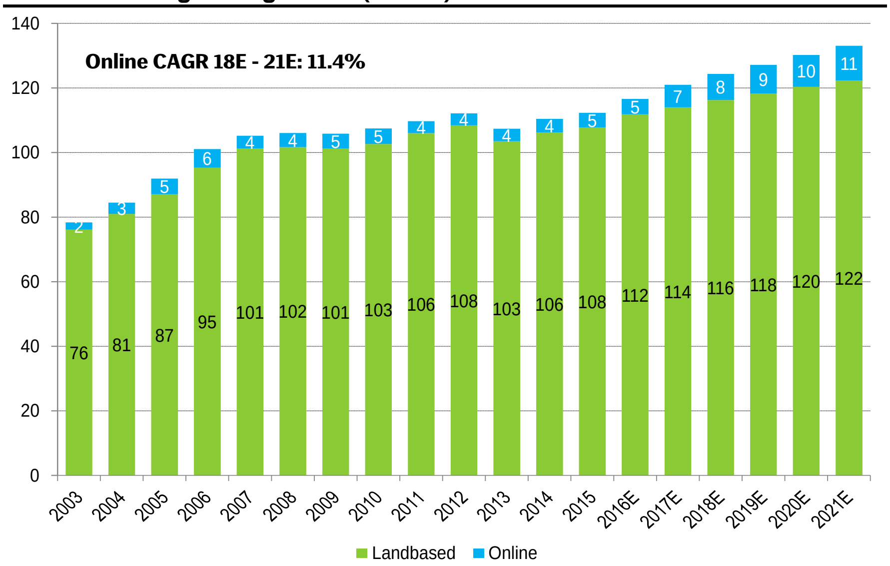
The North American gambling market

GiG to enter the regulated US market through Hard Rock deal

In February 2018, GiG announced an agreement with Hard Rock International to supply the full range of platform and front-end development services for Hard Rock's first online casino. Through revenue share arrangements, this agreement has the potential to be the largest platform agreement signed by GiG. Through the partnership with Hard Rock, the company will enter the regulated US market, where GiG has initiated the application process for the Casino Enterprise License in New Jersey.

The overall North American gambling market is estimated by H2GC to be approximately 25% larger than the European overall market. However, the European online gambling market is estimated to be about three times the size of the North American online market. The relatively low online share is due to a strong standing of land-based gambling and strict federal and state-level regulations on all sorts of gambling (discussed in greater detail in “Regulatory update”).

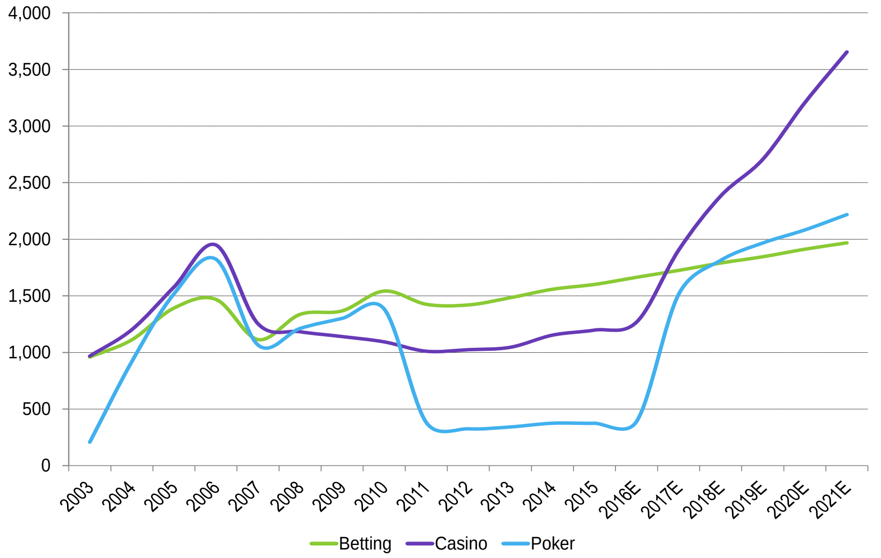
North American gambling market (EURbn)



Source: H2GC

The North American online market is estimated to grow faster than the European online market in the years to come, albite from lower absolute levels. Compared with a European market CAGR of 6.7%, the North American online market is estimated by H2GC to increase at a CAGR of 11.4% over the same period. The two online verticals that are estimated to show the strongest growth in the North American markets are casino and poker. High growth in the casino vertical is particularly interesting, as this is the vertical with by far the strongest margins.

North American online GGR (EURm) by largest verticals



Source: H2

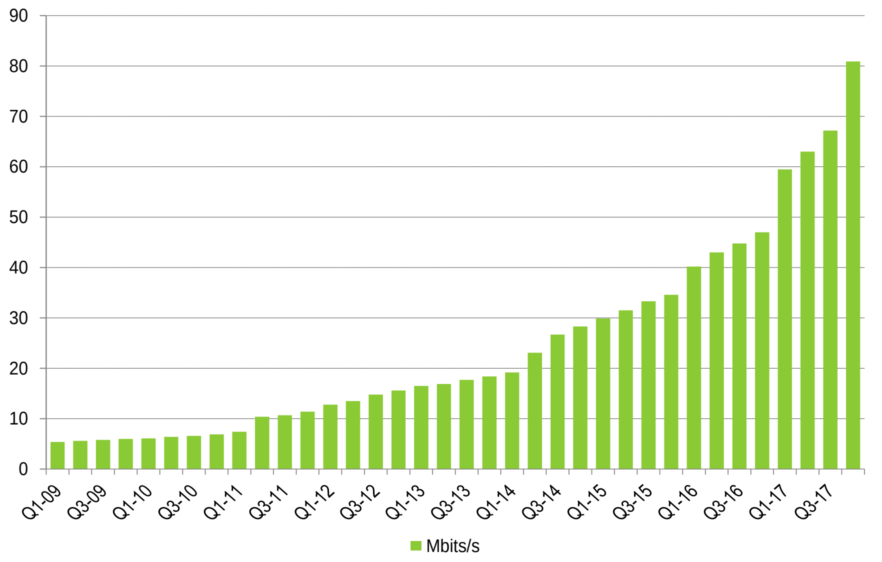
We believe that GiG will ramp up focus in the North American online markets, as more states choose to re-regulate the industry, and due to the relatively stronger growth expected than in Europe.

Future growth drivers

Penetration and speed are historical key drivers

One of the market drivers for GiG's business is the average consumer's increased search for easily available tools of entertainment. As the interest for online gaming, interactive platforms, and social media is advancing, people tend to spend an increasing amount of time and money on internet gaming. In the past, solid infrastructure, and availability of high speed internet connectivity, easy access to mobile applications, efficient hardware compatibility, and safe and secure payments have been the main drivers for growth and have contributed to a boom in the gaming industry. As an example of the significant growth in internet capacity, the below chart shows the growth in average internet speed in Norway according to Statistics Norway (SSB). In the past three years, the average speed has nearly tripled. As internet speed and hardware quality continue to increase, these drivers should still be in place ahead.

Average internet speed in Norway (Mbits/s)

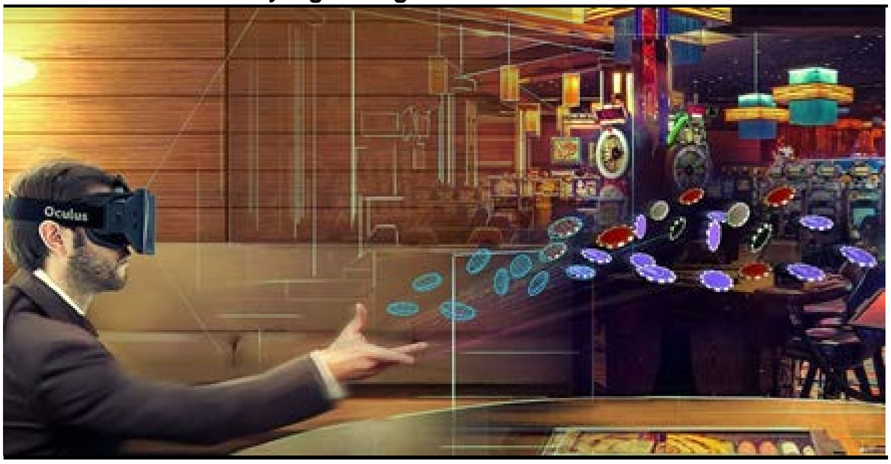


Source: SSB

Innovation contributes to incremental growth
Another driver for growth in the online gaming industry is innovation. Adding new products and content services stands out as a significant driver for revenues. Examples of these innovations that have made a significant impact on the online gambling industry are live casino (blackjack, roulette etc.) and development of mobile gaming. These types of innovations are supported and facilitated by the better quality of hardware and internet, as more sophisticated games and software can be developed.

We believe virtual reality is a new technology that can disrupt the online gambling industry. Online operators strive to make their offering as realistic as possible, but mobile or computer-based gambling is not the same as a casino in Las Vegas or Macau. Even though the technology is in development and cannot be considered as a general function, we believe that it will at some stage in the future spread through large online casinos. Moreover, it can create a completely new segment in the gambling industry, which will specialize in VR.

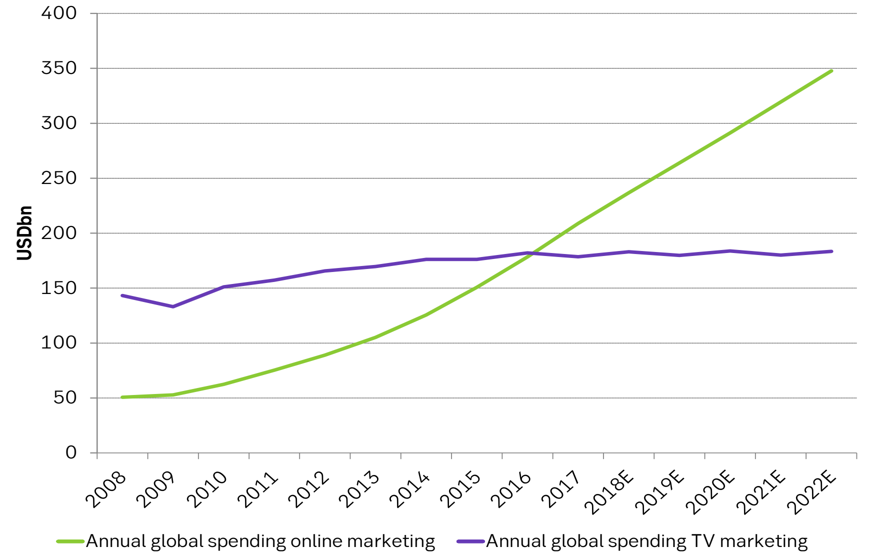
Illustration: Virtual reality in gambling



Source: DAO.Casino

Shift from conventional TV marketing to online marketing
The new generation of online gamblers are increasingly difficult to reach using conventional TV marketing because they watch far less linear television than previous generations. For the iGaming operators, we believe focus will continue to shift towards different online channels such as YouTube and Instagram influencers, Facebook, and Google. This trend will benefit GiG Media both through higher demand for its services, and increase willingness to pay based on higher accuracy in targeting potential new customers.

Annual global TV vs. Online marketing spending



Source: Magma Global, Bloomberg

Legal issues might arise with the targeted marketing GiG Media and other affiliate websites perform, potentially reducing profits. It will be crucial to comply with the increasing amount of regulations, i.e. GDPR, a cost the lead generators potentially might have to bear.

Future growth driver: regulatory update

Regulation is the most important future driver

Although the abovementioned factors are highly significant, regulations are the most important driver of growth in the industry. We believe that the positive effects have the potential to outweigh the negative effects, particularly in the long-term:

- Increased market size (+).
- New and more efficient marketing channels (+).
- Less competition due to increased compliance, i.e. KYC (+).
- More, and improved, payment solutions (+).
- Lower regulatory risk due to visibility (+).
- Taxes (-).
- Increased compliance costs (-).

Gaming markets in Europe are gradually becoming re-regulated, and several nations are in the process of modernising their regulations and issuing licences to online operators. The European Union aims to harmonise gaming regulations, but its main objective is to defend fundamental EU rights such as the free movement of products and services across markets (the exception is if a restriction is non-discriminatory and proportionate). As long as member states comply with this, they are free to implement their own regulatory framework. This trend should allow operators to operate with local customisation in accordance with national law. However, we believe that the European legal landscape will remain complex with varying legal jurisdictions across the markets and different tax rates.

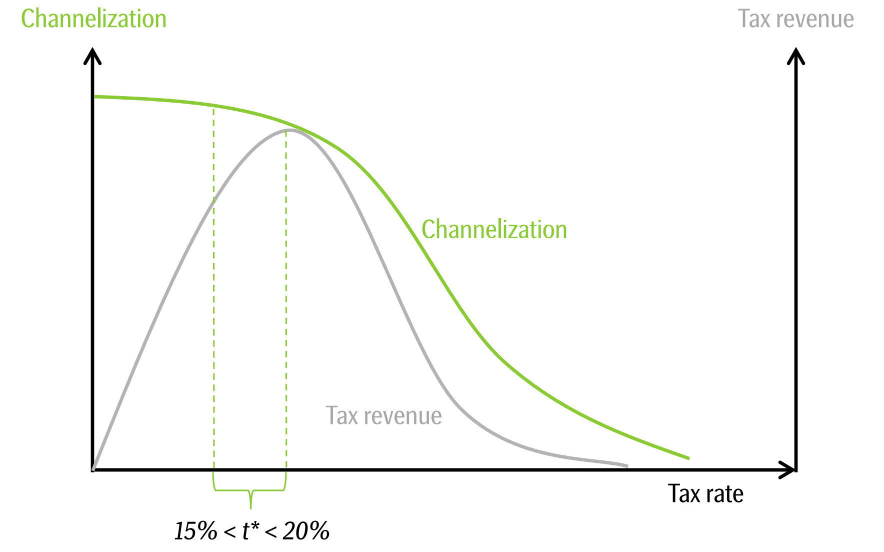
Goal of re-regulation – high degree of channelization

Independent of the local legal landscape, the goal is to secure a high degree of channelization, i.e. that the largest possible share of online gambling is through "legal" sites with a local license. The UK is a frontrunner here, with a channelization rate (share of online gambling within the licensing system) of approximately 95%, at a 15% tax rate. Norway, with its state monopoly, has a channelization rate of approximately 45%.

Optimal tax rate: 15-20%

In the work leading up to the re-regulation of the Swedish market, the effects of different tax rates were mapped in relation to the channelling rate. In order to maximise the channelling rate in isolation, the tax rate should be set to 0%. This would minimise the cost of acquiring a licence, which would increase the probability that the operators would choose to acquire a licence. However, such a solution would mean that the tax revenues would be zero, and, consequently, that there are no conditions for funding. Naturally, a higher tax rate means that it will become more expensive and thus less attractive for the gambling operators to operate within the licensing system. If the tax rate is set too high, gambling operators would choose to refrain from participating in the licencing system, reducing both tax revenue and channelization. In conclusion, an independent study found that the optimal tax rate was 15-20%.

Optimal tax rate (t*) for maximizing channelization and tax revenue



Source: Copenhagen Economics

In the following, we will give a regulatory update in some of GiG's key markets.

Sweden on track for re-regulation by Q1 2019

Sweden

The Swedish government has edged closer to introducing new iGaming regulations after it submitted secondary legislation to the European Commission (EC) in April 2018. The legislation included confirmation that although the regulations will not come into force until 1 January 2019, the licencing process will open in early Q3 this year. The proposed tax rate is 18%, covering all three main sectors (competitive, non-profit, and government owned). Furthermore, the proposal sets several moderations and requirements:

- Moderation in marketing (develop restrictions and practices that are stricter than today).
- Bonuses only allowed for first deposit.
- Requirement on operators to monitor gambling behaviour (in order to prevent addiction and match fixing).
- It will be illegal to process payments to non-licensed operators.

As Sweden re-regulates its gambling markets, we believe GiG's revenue growth will curtail slightly in 2019 relative to 2018. This is due to the increased taxes for GiG's own operators, and slightly lower activity from its customers due to the same taxes. However, in the long-term, we view the regulations as positive due to increased market size, reduced competition as a result of compliance and tax costs, and lower regulatory risk.

No change of policy (state monopoly) in sight

Norway

The regulated Norwegian Gaming Market is dominated by two state owned companies, Norsk Tipping and Norsk Riksototo, which have a national monopoly on a large part of the market, including gambling and horse racing, respectively. In addition, there is a private lottery market including traditional lotteries and bingo. Broad political agreement prevails in Norway that money games must be regulated to prevent undesirable gambling behaviour.

When it comes to a potential re-regulation of the industry in Norway, it looks further down the road than ever. In December 2017, the government stated that it aims to close a loophole allowing television companies based outside Norway (i.e. Viasat 4 and MAX) to show gambling related commercials on Norwegian television. The Norwegian Media Authority estimated at the time NOK 866m in annual commercial spending from gambling companies on Norwegian TV screens. Furthermore, the opposition (who are in a majority) in late April 2018 announced that they had reached an agreement to take further steps to reduce the availability of offshore online gambling. The most notable measures are:

- Block access to foreign iGaming sites through DNS blocking.
- Give the Norwegian Gaming Authority the right to demand annual reporting from banks on transaction to/from foreign iGaming operators and payment solution providers.
- Restrict advertisement channels for the monopoly Norsk Tipping.
- Allow the Norwegian Gaming Authority extended authorisation to pursue and fine breaches of the Norwegian Marketing Law.

In our estimates, we have not factored in a re-regulated Norwegian market. This would be a clear upside to our case, and could prove a significant trigger for the stock.

Denmark

Re-regulated in 2012 with 20% tax on GGR

Denmark re-regulated its online gaming market in January 2012. This ended the monopoly of the state-owned operator Danske Spil, which provided players with online and land-based games. Online operators are subject to a tax rate of 20% of the gross gaming revenue compared with up to 75% for land-based casinos and gaming halls. Operators that want to offer their services to Danish citizens need to apply for a licence in Denmark. The Danish Gaming Authority (DGA) is the gaming authority that issues these licences.

After Denmark re-regulated the market, online gambling has surged. Proof of this ongoing online shift can be found in the latest annual report from the Danish regulator Spillmyndigheden, where 2017 was the first year ever where online revenue exceeded land-based revenue. In its annual report, the organisation stated that the online gaming market accounted for 51.5% of total gambling revenue for 2017, up from 47.4% in the previous year, and up from an estimated 30% in 2013. GiG is currently on track with expansion plans in Denmark, and we believe that the company should be able to secure a licence and start operating in the country in H1 2019.

Finland

State monopoly, but might re-regulate if Swedish experience is good

In Finland, the gaming is directed by the Finnish Lotteries Act, where gaming operator Veikkaus has exclusive rights to organise games in Finland. If Sweden manages a successful re-regulation process, we believe similar re-regulation in Finland is highly plausible.

Germany

Keywords: complex jurisdiction

Following the acquisition of the German sports betting company Nordbet in March 2018, which holds a sports betting licence in Schleswig-Holstein until February 2019 (with possible extension), Germany will be a new market for GiG. For operators, taxation depends on whether the service offered is betting or casino:

- Sports and horserace betting operators are subject to a 5% federal tax on stakes on bets offered in Germany (land-based or online).
- Online casino operators offering their products to customers based in Germany are subject to VAT at a tax rate of 19%.

Even though the VAT rate seems much higher than the taxation of sports betting services, taxation in practice is much lower – the taxation of sports bets is linked to the players' stakes (gross proceeds), while the taxation of casino games is generally linked to the much lower gross gaming revenue (stakes – winnings) of the operator.

Due to the restrictive licencing system, a large part of the online gambling in Germany is through sites based in Malta, Gibraltar etc. There has been a push to further liberalise the market, but nothing firm has come from it at the time of writing.

Viewed as a regulation model for the rest of Europe

The United Kingdom
The UK follows a licencing system, where operators that offer games to UK consumers from foreign jurisdictions (i.e. Malta) need a UK gaming licence as well as paying a game tax rate of 15% in the UK – the same game tax rate as for onshore operators. The new legislation requires suppliers to acquire a licence. The wave of consolidation in the UK online gambling industry in 2015 and 2016 was in part a result of the fact that smaller operators generated operating margins lower than the game tax rate of 15%, and the potential synergy effects of merging. An example of these mergers is Paddy Power merging with Betfair, where the combined entity realised GDP 65m in synergies in its first year as one company.

The Netherlands
It took a while before Dutch lawmakers crafted gambling legislation that contained online gambling legalisation provisions. What became known as the Draft Bill on Remote Gambling was approved by the Dutch House in the summer of 2016. However, senate lawmakers will need to approve the piece of legislation before it takes effect. Lawmakers indicated last year that the long overdue senate vote might occur in 2018 and the Remote Gambling Act might come into force in 2019. However, it seems that there was little progress during the first quarter of the year toward the eventual legalisation of online gambling in the country.

In mid-2017, the Dutch Gaming Authority announced that it would take a stricter approach to offshore iGaming sites that target Dutch players and minors. Some of the actions include investigation and potential fines of sites that operate under an ".nl" internet domain or use typical Dutch references in their marketing such as windmills or clogs. The Gaming authority has been focusing on other parts of the value chain, such as affiliates and payment providers.

The United States
The Unlawful Internet Gambling Enforcement Act (UIGEA) was passed as a federal law in 2006. The major function of the UIGEA was to prohibit gambling operators from accepting payments from players who used the internet to bet. The act did not explicitly ban online gambling, but made it illegal for gambling websites to accept deposits from US based players. The act prohibited different financial institutions, including banks, to process such transactions, regardless of how they are carried out (applies to card payments, electronic money transfers, and even to standard paper checks). However, some US states have embraced online gambling by introducing pieces of legislation which allow their residents to legally partake in some forms of interactive gambling. Such activities are legal in the territory of New Jersey (where GiG is pending a licence approval), Nevada, and Delaware. In October 2017, the state of Pennsylvania joined them by passing a bill that is to regulate online poker and casino games within its borders.

In addition to UIGEA, there are the Interstate Wire Act and PASPA, where the latter essentially prohibits state lawmaking in the area of sports gambling (except Nevada due to state law enforced pre-PASPA). On 14 May 2018, the Supreme Court ruled in favour of the state of New Jersey's claim that PASPA is unconstitutional. Given the positive verdict, we expect more states to issue sport betting bills and the activity in the US gambling market could pick up significantly, as more than 25 states have announced they will follow New Jersey's example of issuing sports betting licences.

Plenty of triggers ahead

GiG Core widening its footprint
As of writing, existing live clients and the signed pipeline adds up to a total of 42 brands operating on the platform, including GiG's brands. As the marginal cost of onboarding another customer is close to zero, more or less all incremental growth is positive. When more suppliers and operators join the platform, the network effect increases, so announcements of GiG Core widening its footprints should be a positive trigger ahead. In particular large customers, i.e. comparable to the Hard Rock deal, should continue to prove the value of GiG Core, thus giving comfort to the case.

M&A
In 2017, the company was active with M&A, ramping up total investments of EUR 61.2m. Including the acquisition of Nordbet (sports betting licence in Germany) and the 36% stake in Studio D-Tech (games developer) in Q1 2018, the total spending was EUR 62.1m in 2017 to year-to-date.

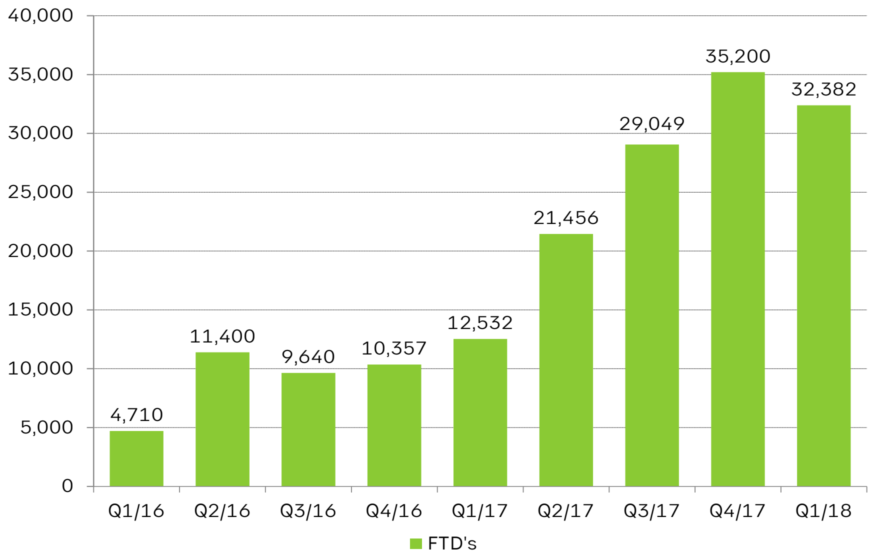
M&A history: 2017 to YTD

	Line of business	Stake	Quarter	Year	Price (EUR)
Nordbet	GiG Gaming	100%	Q1	2018	500,000
Studio D-Tech	GiG Sports & Games	36%	Q1	2018	360,000
Rebel Penguin	GiG Media	100%	Q3	2017	13,000,000
STK Marketing	GiG Media	100%	Q3	2017	26,000,000
Not disclosed	GiG Media	100%	Q2	2017	5,700,000
Casinotopsonline.com	GiG Media	100%	Q1	2017	13,000,000
Not disclosed	GiG Media	100%	Q1	2017	3,500,000
Total					**62,060,000**

Source: GiG

The strong focus on the GiG Media expansion has driven the number of FTDs from 10,300 in Q4 2016 to 35,200 in Q4 2017. With only SEK 650m of the 2017 issued SEK 1,250m bond drawn down, there is plenty of financial room to continue the M&A activity.

FTD development GiG Media



Source: GiG

Successful roll-out with Hard Rock and potential sportsbook tender

The Hard Rock deal was a milestone for GiG. A global brand such as Hard Rock legitimises the platform, and serves as an entry point to the regulated US market. It also supports the company's focus on lager customers. Furthermore, the company has communicated that although it was not lowest on price, it was able to beat a double-digit number of competitors in the tender process. This is a supportive argument for the quality of the platform services. Ahead, successful implementation of the platform will be a crucial measure for the potential of the platform. If successful, confidence increases about the company's claim that it is targeting large and complex customers. This in turn would drive significant revenue growth, as the platform is mainly sold through a revenue share model.

Based on the positive ruling in the New Jersey PASPA case, we believe Hard Rock will issue a sportsbook tender. Based on GiG's current relationship with Hard Rock, we believe GiG is a frontrunner for that potential tender. This would be a clear positive trigger in the short-term.

Financials

The company has been in a strong growth phase, reporting between 62% and 190% y-o-y revenue growth each quarter from Q1 2017 to Q1 2018, and much of this growth has been driven by M&A. In our forecasts, we split the four business units down to the EBITDA level. Depreciation and amortisation is forecasted on group level together with net financial cost and taxes.

GiG Media

GiG Media reported q-o-q revenue growth of 14-43% in the four quarters in 2017, with q-o-q EBITDA growth in the same range. In Q1 2018, revenue declined 4% q-o-q from EUR 8.5m to EUR 8.2m. The reduction was primarily caused by:

- The withdrawal from the Dutch market (undefined length).
- A temporary pause in marketing from a paid media client (Tier 1 sportsbook provider), which was back in business from early Q2 2018.
- Seasonal effects – Q4 is generally the strongest quarter in iGaming, Q1 generally the weakest.

These three points affected the reference of FTDs in the quarter. To numerically illustrate the effect, we have looked at previous FTD development and EBITDA per FTD.

Effects on GiG Media EBITDA from abovementioned bullet points

	Q4/16	Q1/17	Q2/17	Q3/17	Q4/17	Q1/18
FTD's	10,357	12,532	21,456	29,049	35,200	32,382
EBITDA GiG Media (EUR)	1,800,000	2,200,000	3,000,000	4,500,000	5,200,000	4,400,000
EBITDA/FTD	174	176	140	155	148	136
Q1/18 FTDs ex. effects						40,000
Average EBITDA/FTD Q4/16 - Q4/17						155
EBITDA ex. effects (EUR)						6,184,553
EBITDA reported (EUR)						4,400,000
Additional EBITDA (EUR)						**1,784,553**

Source: SEB

We probably overestimate the effect...

...but the point is, do not read too much into the Q1 2018 drop

The difference between the back-of-the-envelope calculation and reported EBITDA is EUR 1.8m, or 40%. This calculation probably overestimates the effect on continued operations as the seasonal effect will most likely repeat itself and the Dutch withdrawal does not have a finite date, so a realistic effect on continued operations from the temporary pause in marketing from the Tier 1 UK client is likely 15-25%. We have accounted for this in our forecasts, as this client allegedly is back from early Q2 2018.

We forecast full year revenue growth of 74% in 2018, 47% in 2019, and 20% in 2020. We expect strong revenue growth on the back of Rebel Penguin becoming fully integrated for the first full year in 2018, but then declining from higher levels in 2019 and 2020. Furthermore, the ongoing trend of a shift from traditional TV advertisement to targeted online marketing should support the continued positive top line momentum.

Opex/sales down on less new hires and increased sales

Both COGS and marketing cost are relatively low in the business, leaving other opex (mainly salary) as the main cost component. The company has stated that it has passed the peak of the growth phase in respect of new hires, and we believe opex/sales should decline as the organisation settles and revenue keeps growing.

Pending the new legislation coming into effect in 2019 (might slide to 2020) in Holland, GiG has stated that the company has removed all ads on affiliate websites in Holland in 2018 targeted directly at Dutch consumers. Important to note is that existing revenue share agreements on Dutch clients referred pre-removal will continue to run. The company estimates that the temporary stop in onboarding new Dutch customers will have a negative pro-forma EBITDA effect of EUR 2.5m in 2018, but that the company will be able to open up again the Dutch affiliate business in 2019 or 2020. This contributes to a somewhat reduced EBITDA margin in 2018 (56%) compared with 2017 (67%). However, we forecast that the EBITDA margin will turn upwards in 2019 (64%) and 2020 (66%).

GiG Core

GiG Core averaged both revenue and EBITDA q-o-q growth of above 20% in all of the four quarters in 2017, ending the year with total revenues of EUR 21m and EBITDA EUR 15m. In Q4, a one-off settlement of EUR 2m due to a switch from revenue share to flat fee for one of the costumers inflated the reported numbers somewhat, which led to a 29% q-o-q reduction in revenues from Q4 2017 to Q1 2018. The revenue reduction was also partly caused by a reduction in overall fees of EUR 1.3m to support the long-term growth of GIG Core's operators. Payment Services Directive 2 came into effect in early Q1 2018, and in order to stay compliant, GiG has removed all fees incurred by customers on transactions, i.e. if a customer deposited EUR 100 GiG would charge EUR 102. The net effect on revenues and EBITDA is uncertain as the cost cascades to suppliers and clients, and will be offset by increased business. However, the company estimates the effect is EUR 4-6m on a pro-forma annual basis.

40%+ margins ahead

The business has been able to increase EBITDA margin from 11% in Q1 2017 to 69% in Q4 2017, and increasing revenues from EUR 2.8m to EUR 9.6m, leading to a full year margin of 48%. Due to the switch from revenue share to flat fee for one of the costumers and fee reduction in Q1 2018, EBITDA margin declined to 22%. We believe that neither the Q4 2017 (69%) or Q1 2018 (22%) EBITDA margin is realistic in the long-term. 2017 finished strong due to one-offs, and we believe that the margin will strengthen from the 22% in Q1 2018, as increased operator turnover drives increased revenue, but limited cost. Furthermore, the platform is highly scalable with minimum incremental cost for each new onboarding customer. Therefore, we forecast EBITDA margins of 32% in 2018, 45% in 2019, and 47% in 2020. The lower margin in 2019 compared with 2020 is due to the fact that Sweden will re-regulate, pressuring margins for both operators and suppliers. As most of GiG Core's revenues are on a revenue share agreement, lower activity on client sites will translate to lower top line for GiG Core. We forecast that both margins and revenue will increase in 2020 when competition eases due to consolidation and the market continues to grow.

GiG Sports & Games

Strong operational leverage

We believe the company will continue to invest heavily in the Sports & Games-business throughout 2018, but that this will decline when the business is more or less fully commercialised by the end of the year. According to the company, the majority of the development cost incurred thus far has not been capitalised, but rather booked on the P&L, so increased revenue should improve the bottom line.

Previous revenue in the unit has been in-house odds trading. Ahead, GiG's sportsbook will generate additional revenue from Q2, and in-house developed games from Q3/Q4, all on a revenue share basis. In 2018, we forecast a peak in Q2 (FIFA Football World Cup) and Q4 (traction from Games sales to B2B clients and seasonal effects). With a relatively fixed cost base in relation to employee compensation, we believe opex/sales will rapidly decline in 2019 and 2020 as the operations scale, fuelling increased EBITDA margins. We forecast full-year EBITDA margin of 24% in 2019 and 30% in 2020. This is below the peer median EBITDA margin in both 2019 and 2020, primarily due to continued development of the offering.

Peer EBITDA-margin 2018-20E

(%)	2018E	2019E	2020E
Evolution Gaming	44.2 %	44.0 %	43.8 %
Kambi	28.9 %	29.0 %	31.3 %
NetEnt	46.0 %	46.5 %	46.5 %
PlayTech	33.0 %	32.9 %	32.4 %
Scientific Games	39.6 %	40.4 %	41.6 %
Median	**39.6 %**	**40.4 %**	**41.6 %**

Source: Bloomberg

Time to reap the rewards of front-end loaded marketing

GiG Gaming

In 2017, active users, deposits and NGR showed a large increase, although heavy marketing expenses affected results negatively. With more active users, who are not subject to future revenue share payments, the company has stated that it is confident that these front-end loaded marketing investments will be profitable, and the company expects GiG Gaming to deliver positive results in 2018. Proof of this came in Q1 2018, where the business unit delivered its first positive EBITDA contribution of EUR 0.1m on EUR 25.4m in revenues, up from an average loss of EUR 2.3m in the four quarters in 2017. The main reasons for the improvement was flat marketing expenses relative to increasing revenues, and improvement in operating expenses compared with revenues over the past quarters. Ahead, we believe that GiG will reap the rewards of previous front-end loaded marketing costs, increasing the EBITDA margin on increasing revenues.

The company has increased its B2C top line at a steady pace from EUR 18.5m in Q1 2017 to EUR 25.4m in Q1 2018. We forecast continued growth, albeit at a slower pace. We believe the company is satisfied with the number of own operators in the medium-term, and growth will be driven by existing sites, not new additions to the B2C segment. Increased COGS due to taxes on GGR is included from 2019 and onwards.

Group figures

On a group level, depreciation and amortisation mainly consist of amortisation of affiliate assets, generally amortised over three years. The first acquisitions were made almost three years ago, while the highest valued acquisitions were made in 2017. Therefore, D&A is forecasted to remain flat or slightly decline over the forecast period (year-end 2020). The group has quarterly interest costs of EUR 1.1m on the outstanding bond, where the tap as of end-Q1 was EUR 62.3m. Effective tax rate on pre-tax profits are forecasted to be 11%, a mix of Maltese and US taxes.

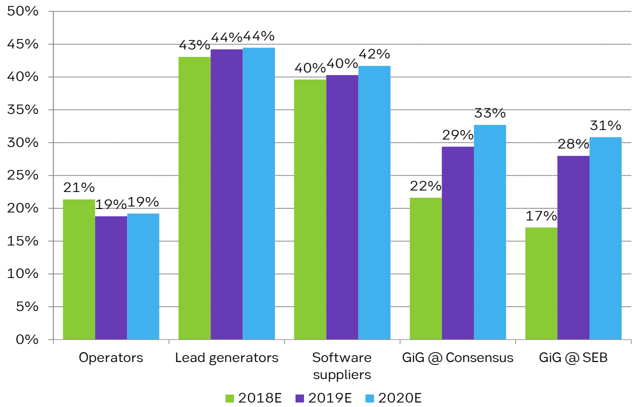
Segment & Group Financials

	Q1/17	Q2/17	Q3/17	Q4/17	Q1/18	Q2/18E	Q3/18E	Q4/18E	2017	2018E	2019E	2020E
GiG Media												
Revenue	3.2	4.4	6.3	8.5	8.2	8.9	10.2	11.8	22.4	39.1	57.5	69.0
EBITDA	2.2	3.0	4.5	5.2	4.4	4.6	6.0	7.0	14.9	22.0	36.8	45.6
EBITDA (%)	69%	68%	71%	61%	54%	52%	59%	59%	67%	56%	64%	66%
GiG Core												
Revenue	2.8	3.5	5.1	9.6	6.8	7.1	7.6	8.5	21.0	30.1	39.4	47.3
EBITDA	0.3	1.1	2.0	6.6	1.5	1.9	2.8	3.2	10.0	9.5	17.5	21.3
EBITDA (%)	11%	31%	39%	69%	22%	27%	37%	38%	48%	32%	45%	45%
GiG Sports & Games												
Revenue	0.3	0.7	0.2	-0.1	0.2	0.3	0.3	0.9	1.1	1.7	5.4	6.7
EBITDA	-0.2	-0.2	-1.2	-1.6	-1.7	-1.3	-1.3	-0.7	-3.2	-4.9	1.3	2.0
EBITDA (%)	N.A.	N.A.	N.A.	N.A.	-850%	-423%	-423%	-73%	-291%	-288%	24%	30%
GiG Gaming												
Revenue	18.5	20.2	21.9	25.4	25.4	26.9	28.5	30.8	86.0	111.7	130.8	141.1
EBITDA	-2.7	-1.9	-2.3	-2.1	0.1	-0.8	1.0	2.6	-9.0	2.9	5.9	7.8
EBITDA (%)	N.A.	N.A.	N.A.	N.A.	0%	-3%	4%	9%	-10%	3%	5%	6%
Eliminations												
Revenue	-1.71	-2.14	-2.67	-3.43	-3.34	-3.24	-3.50	-3.90	-9.9	-14.0	-17.5	-19.8
EBITDA	0.0	0.0	0.0	-0.1	0.0	-0.2	-0.2	-0.3	-0.1	-0.7	-1.2	-1.3
Group												
Revenue	**23.1**	**26.6**	**30.8**	**39.9**	**37.3**	**40.0**	**43.2**	**48.1**	**120.4**	**168.6**	**215.6**	**244.3**
COGS	-4.4	-4.7	-5.0	-6.5	-6.9	-6.7	-7.1	-7.6	-20.5	-28.3	-40.5	-47.6
Gross profit	**18.7**	**21.9**	**25.9**	**33.4**	**30.5**	**33.3**	**36.1**	**40.5**	**99.9**	**140.3**	**175.1**	**196.7**
Marketing cost	-10.9	-11.1	-11.9	-13.1	-11.9	-14.4	-13.3	-13.3	-47.1	-52.8	-55.8	-61.7
Marketing cost/rev (%)	*47%*	*42%*	*39%*	*33%*	*32%*	*36%*	*31%*	*28%*	*39%*	*31%*	*26%*	*25%*
Other OPEX	-8.1	-8.9	-10.9	-12.4	-14.3	-14.7	-14.5	-15.3	-40.3	-58.7	-58.9	-59.8
Other OPEX/revenue (%)	*35%*	*33%*	*35%*	*31%*	*38%*	*37%*	*34%*	*32%*	*33%*	*35%*	*27%*	*24%*
EBITDA	**-0.4**	**1.9**	**3.0**	**7.9**	**4.3**	**4.2**	**8.3**	**11.9**	**12.5**	**28.8**	**60.3**	**75.3**
EBITDA (%)	*N.A.*	*7%*	*10%*	*20%*	*12%*	*11%*	*19%*	*25%*	*10%*	*17%*	*28%*	*31%*
D&A	-1.2	-2.2	-3.2	-4.3	-4.7	-4.8	-4.8	-4.8	-10.9	-19.1	-19.0	-18.8
EBIT	**-1.6**	**-0.2**	**-0.1**	**3.6**	**-0.4**	**-0.6**	**3.5**	**7.1**	**1.6**	**9.7**	**41.3**	**56.5**
EBIT (%)	*-7%*	*-1%*	*0%*	*9%*	*-1%*	*-1%*	*8%*	*15%*	*1%*	*6%*	*19%*	*23%*
NI	**-2.5**	**-0.2**	**-0.5**	**2.8**	**0.9**	**-1.5**	**2.2**	**5.4**	**-0.4**	**6.9**	**32.9**	**49.3**
NOS	888	888	891	896	896	896	896	896	896	896	896	896
EPS	**N.A.**	**N.A.**	**N.A.**	**0.00**	**0.00**	**N.A.**	**0.00**	**0.01**	**N.A.**	**0.01**	**0.04**	**0.06**

Source: SEB

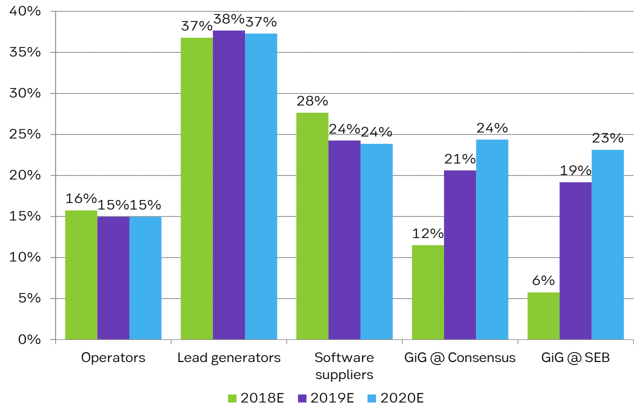
Despite what looks like too-good-to-be-true margins, GiG's margin is at the lower end of traded peers. Pure affiliates and software suppliers generate high margins due to high scalability and/or popular products which the end-user keeps returning to. The company's exposure to the operator segment reduces the group margin, but as the affiliate and platform business gains a larger share of revenues, we expect EBITDA margin to increase.

Industry EBITDA margins



Source: SEB, Bloomberg

Industry EBIT margins



Source: SEB, Bloomberg

Valuation

We initiate coverage of Gaming Innovation Group with a Buy recommendation and a target price of NOK 6.10. This is based on a combination of the sum-of-the-parts valuation and DCF valuation.

Implied multiples on SEB target price and current share price

	At SEB target price			At current share price		
	2018E	2019E	2020E	2018E	2019E	2020E
EV/Sales (x)	3.7x	2.9x	2.5x	3.1x	2.4x	2.1x
EV/EBITDA (x)	21.5x	10.2x	8.2x	18.1x	8.7x	6.9x
EV/EBIT (x)	63.8x	15.0x	10.9x	53.9x	12.6x	9.2x
PER (x)	81.2x	17.4x	11.6x	67.6x	14.7x	9.9x

Source: SEB

To address the structural differences in margins and risk between the different business areas, we use a sum-of-the-parts valuation based on peers that are pure operators, game suppliers, or affiliates. To account for the fact that 2018 is somewhat of a transition year ahead of re-regulation of several key markets (Sweden and the Netherlands) and the roll-out of GiG Sports & Games, we use a combination of 2019 EV/EBITDA multiples, supported by a group DCF.

Sum-of-the-parts

Our SOTP valuation yields an equity value per share of NOK 6.2.

SOTP valuation

(EURm)	2018E	2019E	2020E	EV/EBITDA (x) SEB 2019E	EV Contribution
GiG Media					
Revenues	39.1	52.2	66.5		
EBITDA	22.0	36.8	45.6	**10.0x**	**367.9**
GiG Core					
Revenues	30.1	39.4	47.3		
EBITDA	9.5	17.5	21.3	**9.5x**	**166.7**
GiG Sports & Games					
Revenues	1.7	5.4	6.7		
EBITDA	-4.9	1.3	2.0	**12.0x**	**15.4**
GiG Gaming					
Revenues	111.7	130.8	141.1		
EBITDA	2.9	5.9	7.8	**9.0x**	**53.0**
Group Eliminations					
EBITDA	-0.7	-1.2	-1.3	**10.0x**	**-11.7**
Enterprise Value					**591**
NIBD YE 2019E					11
Equity value					**580**
NOS					896
Equity value/share (EUR)					**0.65**
EURNOK					9.5
Equity value/share (NOK)					**6.2**

Source: SEB

GiG Media

GiG Media is valued on 2019E EV/EBITDA of 10x. This is somewhat below Catena Media (12.1x), which is the market leader in the segment, but higher than XLMedia (8.4x), which does not have the same clean exposure to the iGaming industry which has a high willingness to pay for marketing. Due to the high-margin nature of the business and strong growth potential, GiG Media is the largest EV contributor.

GiG Core

GiG Core is valued on 2019E EV/EBITDA of 9.5x, with Games/Odds and Platform suppliers as a peer benchmark. 9.5x is at the high range of the peer interval, but significantly below segment leaders such as Evolution Gaming (13.8x) and NetEnt (12.6x). The 9.5x EV/EBITDA is warranted by growth potential, de-risking through wide geographical exposure and a wide customer base.

GiG Sports & Games

The business area has had negative EBITDA since its inception, but we believe the business will show rapid revenue and EBITDA growth when it is fully operational. This is due to the high degree of scalability, a majority of development costs already recognised, and generally high margins in this line of business. To account for the significant growth potential, the unit is valued at 2019E EV/EBITDA of 12x. This would be more or less in line with, or slightly below, the consensus valuation on Evolution Gaming, NetEnt, and Kambi.

GiG Gaming

The B2C unit is valued at 2019E EV/EBITDA of 9x. This is slightly below the peer media (9.5x) in its core markets, mainly due to a lack of international, strong brands. We believe that as markets re-regulate, big becomes bigger and small becomes smaller due to increased taxes and compliance cost. Today, we do not believe that GiG's operators have a particularly strong competitive brand advantage relative to peers, thus lowering the multiple.

SOTP Sensitivities

EV/EBITDA GiG Media	EURNOK						
	8.75	9.00	9.25	9.50	9.75	10.00	10.25
8.0x	4.9	5.1	5.2	5.4	5.5	5.7	5.8
8.5x	5.1	5.3	5.4	5.6	5.7	5.9	6.0
9.0x	5.3	5.5	5.6	5.8	5.9	6.1	6.2
9.5x	5.5	5.6	5.8	6.0	6.1	6.3	6.4
10.0x	5.7	5.8	6.0	6.2	6.3	6.5	6.6
10.5x	5.8	6.0	6.2	6.3	6.5	6.7	6.9
11.0x	6.0	6.2	6.4	6.5	6.7	6.9	7.1
11.5x	6.2	6.4	6.6	6.7	6.9	7.1	7.3
12.0x	6.4	6.6	6.8	6.9	7.1	7.3	7.5

Source: SEB

SOTP Sensitivities

EV/EBITDA GiG Core	EURNOK						
	8.75	9.00	9.25	9.50	9.75	10.00	10.25
7.5x	5.3	5.5	5.6	5.8	5.9	6.1	6.2
8.0x	5.4	5.6	5.7	5.9	6.0	6.2	6.3
8.5x	5.5	5.7	5.8	6.0	6.1	6.3	6.4
9.0x	5.6	5.7	5.9	6.1	6.2	6.4	6.5
9.5x	5.7	5.8	6.0	6.2	6.3	6.5	6.6
10.0x	5.8	5.9	6.1	6.2	6.4	6.6	6.7
10.5x	5.8	6.0	6.2	6.3	6.5	6.7	6.8
11.0x	5.9	6.1	6.3	6.4	6.6	6.8	6.9
11.5x	6.0	6.2	6.4	6.5	6.7	6.9	7.0

Source: SEB

Peer multiples

As argued in the introduction, we believe that one should apply different multiples to the different business units in GiG. This is due to structural differences in margins and risks between the different business areas, and to easier display the true underlying values in the company. On a group level, our estimates imply 2019E PER of 14.7x, and 2020E PER of 9.9x on the current share price. We believe that the market underestimates the significant EPS and cash generation potential of GiG, and that the pricing is attractive based on growth and margin expectations.

Peer multiples

	PER (x)			EV/EBITDA (x)			EV/EBIT (x)		
	2018E	2019E	2020E	2018E	2019E	2020E	2018E	2019E	2020E
Mainly operators									
Betsson	10.0x	10.5x	10.4x	7.8x	7.7x	7.3x	10.1x	10.2x	9.9x
William Hill	12.3x	12.4x	11.9x	7.7x	7.6x	7.3x	9.9x	9.8x	8.3x
Rank Group	11.2x	10.7x	10.2x	5.3x	4.9x	4.5x	8.1x	7.5x	7.0x
OPAP	16.0x	13.6x	12.2x	8.9x	7.5x	6.9x	11.9x	9.7x	8.7x
Cherry	23.9x	19.8x	16.9x	12.0x	9.4x	8.2x	15.5x	13.0x	9.4x
LeoVegas	24.8x	15.8x	12.3x	14.4x	10.5x	8.2x	22.7x	14.4x	9.9x
888	20.8x	18.2x	16.7x	12.5x	10.9x	9.8x	15.8x	13.6x	10.7x
bet-at-home	17.9x	16.9x	15.9x	13.9x	13.4x	12.8x	14.4x	13.9x	13.1x
Mr. Green	15.1x	10.1x	8.3x	5.5x	3.4x	2.4x	10.1x	5.2x	3.5x
Jackpotjoy	7.1x	6.4x	6.1x	8.2x	7.2x	6.5x	17.3x	13.4x	10.9x
Kindred	15.5x	17.1x	16.8x	11.0x	11.6x	11.1x	14.4x	15.4x	14.8x
Mainly software suppliers									
Evolution Gaming	23.7x	19.6x	16.9x	17.3x	13.8x	11.6x	21.1x	17.1x	14.2x
Kambi	37.1x	34.0x	23.3x	14.1x	12.9x	9.2x	26.4x	24.7x	13.1x
NetEnt	19.8x	18.7x	17.3x	14.0x	12.6x	11.5x	18.3x	16.4x	15.7x
PlayTech	12.4x	10.9x	9.6x	8.5x	6.6x	5.6x	10.1x	8.6x	6.9x
Scientific Games	n.a.	84.8x	70.1x	10.3x	9.4x	8.8x	27.4x	22.3x	23.1x
Mainly lead generator									
XL Media	15.6x	14.1x	13.6x	9.3x	8.4x	7.2x	10.9x	9.9x	8.9x
Catena Media	19.7x	16.4x	14.2x	14.8x	12.1x	10.3x	17.3x	14.2x	10.6x
GiG (Consensus)	29.5x	11.8x	8.8x	12.8x	6.9x	N/A	24.0x	9.8x	n.a.
GiG @ SEB TP	81.2x	17.4x	11.6x	21.5x	10.2x	8.2x	63.8x	15.0x	10.9x
GiG @ SEB Estimates and current price	**67.6x**	**14.7x**	**9.9x**	**18.1x**	**8.7x**	**6.9x**	**53.9x**	**12.6x**	**9.2x**

Source: SEB, Bloomberg

An alternative to GiG could be to invest in a basket of the companies above, yielding more or less the same exposure. However, we consider GiG's business strategy of collapsing the value chain and capturing upwards of 100% of the customer wallet plausible, and that there exists real synergy effects of owning multiple parts of the value chain. When one considers the ongoing consolidation trend in the industry, GiG is a player that can access a wider range of potential accretive deals all the time they are present through the entire value chain.

DCF

Our DCF valuation yields an equity value per share of NOK 6.0. Strong cash generation is driven by increased top line growth, trickling down through to EBIT based on strong operational leverage due to previous front-end loaded marketing cost and hiring. We believe the company is looking for attractive M&A opportunities, but not on the same scale as 2017. Therefore, capital expenditures are forecasted to be around the same as depreciation and amortisation. The strong cash conversion is supported by low taxes in Malta, and we have not included any significant improvements to working capital.

DCF valuation summary

(EURm)	2018E	2019E	2020E	2021E	2022E	Average year 6	Average year 7-8	Average year 9-10
Sales growth (%)	40.0	27.9	13.3	9.0	7.0	5.0	2.5	2.0
EBITDA margin (%)	17.1	28.0	30.8	30.8	30.8	30.8	30.8	30.8
EBIT margin (%)	5.8	19.2	23.1	23.1	23.1	23.1	23.1	23.1
Gross capital expenditures as % of sales	10.7	8.3	7.4	7.6	7.6	7.6	7.6	7.6
Working capital as % of sales	(2.7)	(2.6)	(2.6)	(2.6)	(2.6)	(2.6)	(2.6)	(2.6)
Sales	169	216	244	266	285	299	311	324
Depreciation	(19)	(19)	(19)	(21)	(22)	(23)	(24)	(25)
Intangibles amortisation	0	0	0	0	0	0	0	0
EBIT	10	41	56	62	66	69	72	75
Taxes on EBIT	(1)	(5)	(6)	(7)	(7)	(8)	(8)	(8)
Increase in deferred taxes	0	0	0	0	0	0	0	0
NOPLAT	**9**	**37**	**50**	**55**	**59**	**62**	**64**	**67**
Gross capital expenditure	(18)	(18)	(18)	(20)	(22)	(23)	(24)	(25)
Increase in working capital	(3)	1	1	1	0	0	0	0
Free cash flow	**7**	**39**	**52**	**56**	**59**	**62**	**65**	**67**
ROIC (%)	4.7	17.1	25.1	27.4	29.5	31.1	32.4	33.9
ROIC-WACC (%)	(5.3)	7.1	15.1	17.4	19.5	21.1	22.4	23.9
Share of total net present value (%)	0.0	5.7	6.9	6.7	6.5	6.2	11.2	9.6

Source: SEB

We value the company with a 10% WACC, 11% long-term tax rate, and perpetual growth of 2%. The DCF valuation implies 2019E PER of 17.1x and 2020E PER of 11.4x. For a high tech growth company, we believe these multiples are attractive, particularly looking at 2019.

Implied DCF multiples

	2018E	2019E	2020E
EV/EBITDA (x)	21.2x	10.1x	8.1x
EV/EBIT (x)	62.9x	14.8x	10.8x
PER (x)	80.1x	17.1x	11.4x

Source: SEB

DCF Valuation (EUR)

DCF valuation (EURm)		Weighted average cost of capital (%)	
NPV of FCF in explicit forecast period	325	Risk free interest rate	5.0
NPV of continuing value	288	Risk premium	5.0
Value of operation	**613**	**Cost of equity**	**10.0**
Net debt	49	**After tax cost of debt**	**4.5**
Share issue/buy-back in forecast period	-		
Value of associated companies	-	**WACC**	**10.0**
Value of minority shareholders' equity	-		
Value of marketable assets	-	**Assumptions**	
DCF value of equity	**564**	Number of forecast years	10
DCF value per share (EUR)	**1**	EBIT margin - steady state (%)	23.1
Current share price (EUR)	0.53	EBIT multiple - steady state (x)	9.1
DCF performance potential (%)	19	Continuing value (% of NPV)	47.0

Source: SEB

DCF sensitivity (EURNOK assumed 9.5)

		Rel. change in EBITDA margin - all years (%)				
		-20%	-10%	0%	+10%	+20%
Rel. change in sales growth - all years (%)	-20%	4.3	5.0	5.8	6.5	7.2
	-10%	4.4	5.2	5.9	6.6	7.4
	0%	4.5	5.3	6.0	6.8	7.5
	+10%	4.6	5.4	6.2	6.9	7.7
	+20%	4.7	5.5	6.3	7.1	7.9

Source: SEB

Risks to the investment case

Regulatory risk
Despite the general positive sentiment for re-regulation in Europe, changes to this positive sentiment are a risk to our investment case. In the short term it will be positive due to lower taxes, but as highlighted in the regulatory update, we believe re-regulation is fundamentally positive in the long run. Hence, fewer re-regulated markets would reduce the attractiveness of the case in the long term.

Disruptive technology
On a company specific level competitors developing superior technology could side-line GiG, hurting both top line and profit growth. However, our impression is that GiG is very much in the technological forefront of the industry, reducing our fear for this materializing. Despite their position, disruptive technologies are by nature hard to forecast.

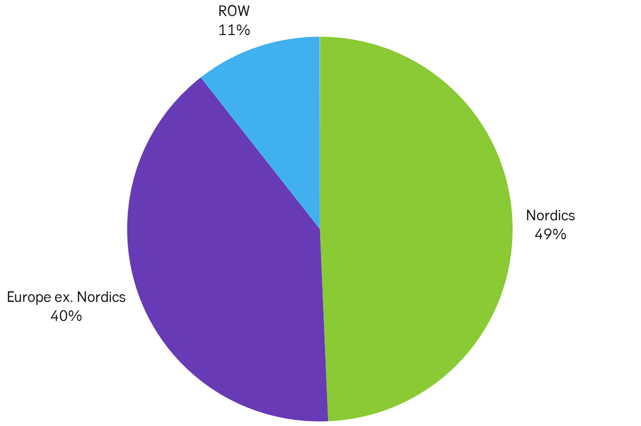
Key personnel leaving
With approximately 700 employees, GiG has become a sizable organization. However, certain employees continue to be critical for the development of the company. Beside an experience management, high quality programmers and developers will continue to be a highly valued resource

Outsourcing becomes out, In-house becomes in
A shift in focus to in-house production of platforms, games and sportsbook, and affiliate services for the operators would obviously be a risk to the GiG case. However, we believe increased regulatory pressure will prompt more focus on core activities, and a corresponding increase in outsourcing of non-core services.

Overview

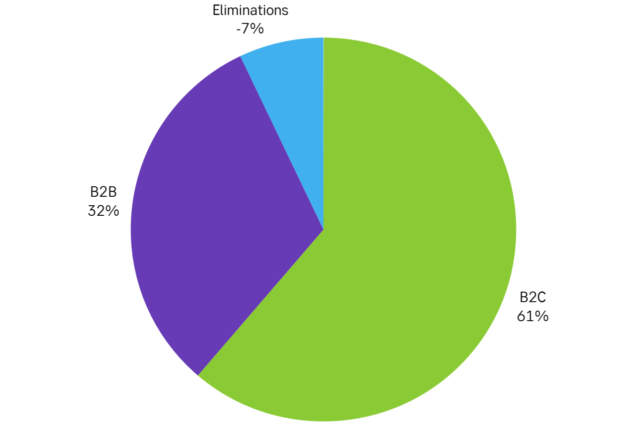
Investment case	After a period of heavy investments, front-end loaded marketing and organizational building, we argue the company is set to reap the rewards of these efforts. Continued strong top line momentum should trickle down through to EBITDA and ultimately EPS, at the moment not recognized by the market.
Company profile	Gaming Innovation Group Inc. is an Internet gaming (iGaming) company, aiming to consolidate the online gaming industry. The company offers services throughout the value chain, from fully owned operators (GiG Gaming) to affiliate marketing (GiG Media), software platform solutions (GiG Core) and proprietary games and odds production (GiG Sports & Games).
Valuation approach	To address the structural differences in margins and risk between the different business areas, we use a sum-of-the-parts valuation based on peers that are pure breed operators, game suppliers or affiliates. This is supported by a Group DCF valuation.
Target price risks	The main risks are unfavourable regulatory changes and a shift in focus to in-house production of platforms, games, sportsbooks and affiliate services

Revenues by region (2017)



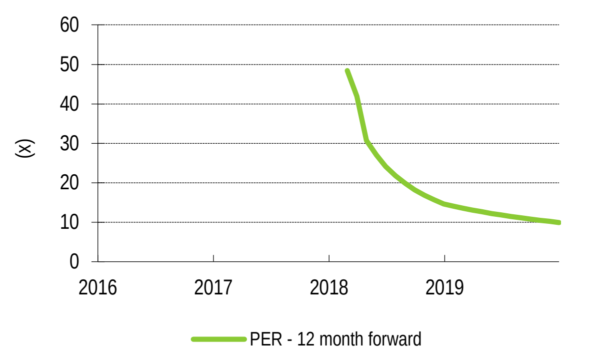
Source: GiG

Revenues by segment (2017)



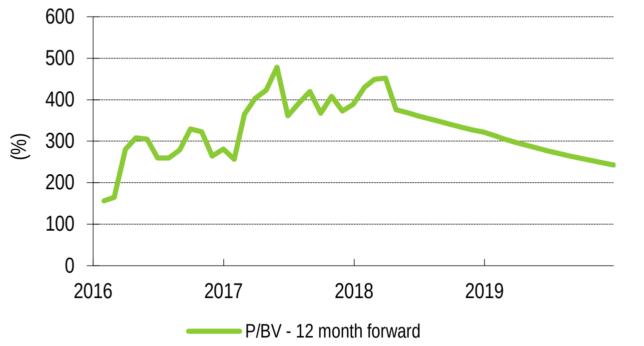
Source: GiG

PER - 12 month forward



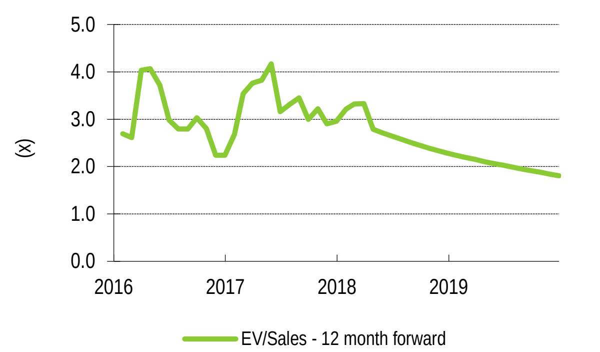
Source: SEB

P/BV - 12 month forward



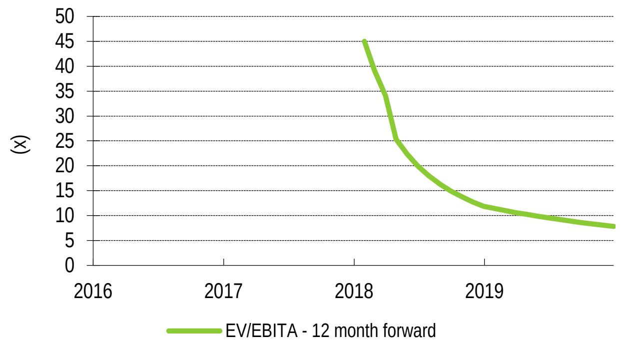
Source: SEB

EV/Sales - 12 month forward



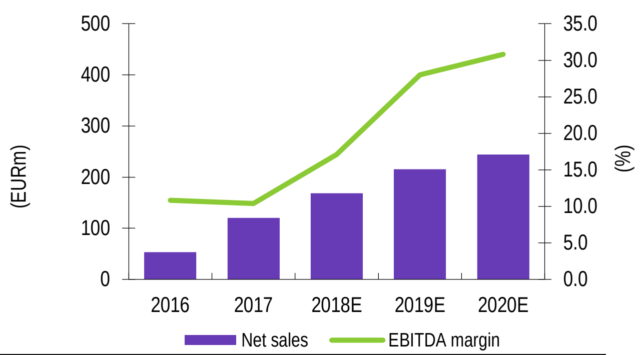
Source: SEB

EV/EBITA - 12 month forward



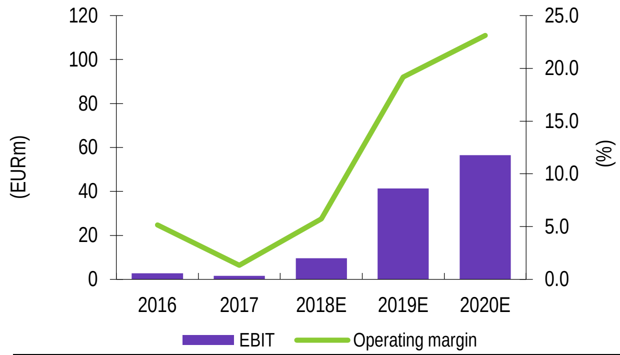
Source: SEB

Net sales & EBITDA margin



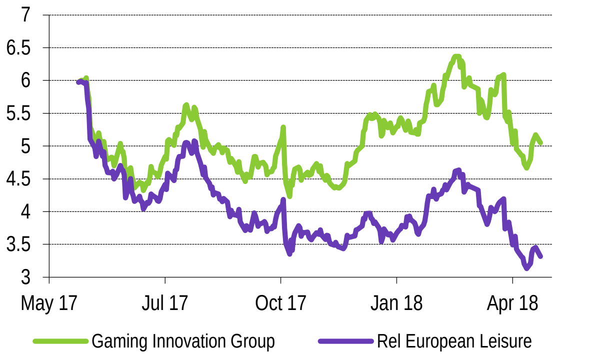
Source: SEB

EBIT & Operating margin



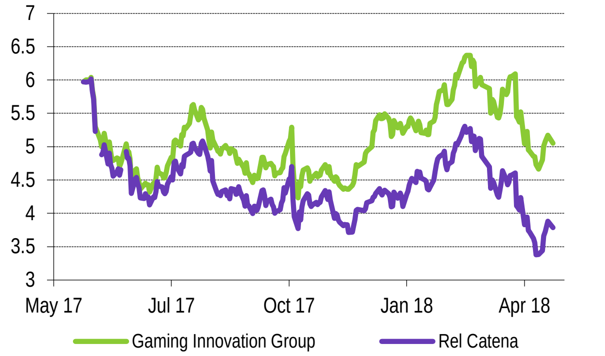
Source: SEB

Comparison with sector index - 1 year



Source: SIX

Comparison with Catena - 1 year



Source: SIX

Profit & loss statement - Gaming Innovation Group					
(EURm)	**2016**	**2017**	**2018E**	**2019E**	**2020E**
Net Sales	54	120	169	216	244
Other revenues	0	0	0	0	0
Total revenues	**54**	**120**	**169**	**216**	**244**
Total expenses	(48)	(108)	(140)	(155)	(169)
Profit before depreciation	**6**	**13**	**29**	**60**	**75**
Depreciation - Fixed assets	(3)	(11)	(19)	(19)	(19)
Depreciation - Other assets	0	0	0	0	0
Amortisation - Goodwill	0	0	0	0	0
Amortisation - Other intangibles	0	0	0	0	0
Operating profit	**3**	**2**	**10**	**41**	**56**
Net interest expenses	0	(1)	(5)	(5)	(2)
Foreign exchange items	0	0	0	0	0
Other financial items	(1)	0	3	0	0
Value changes - Fixed assets	0	0	0	0	0
Value changes - Financial assets	1	0	(0)	0	0
Value changes - Other assets	0	0	0	0	0
Reported pre-tax profit	**3**	**1**	**8**	**37**	**54**
Minority interests	0	0	0	0	0
Total taxes	(0)	(1)	(1)	(4)	(6)
Reported profit after tax	**2**	**(0)**	**7**	**33**	**48**
Discontinued operations	0	0	0	0	0
Extraordinary items	(0)	0	0	0	0
Net Profit	**2**	**(0)**	**7**	**33**	**48**
Adjustments:					
Discontinued operations	0	0	0	0	0
Interest on convertible debt	0	0	0	0	0
Minority interests (IFRS)	0	0	0	0	0
Value changes	(1)	0	0	0	0
Goodwill/intangibles amortisations	0	0	0	0	0
Restructuring charges	0	0	0	0	0
Other adjustments	0	0	0	0	0
Tax effect of adjustments	0	0	0	0	0
Adjusted profit after tax	**1**	**(0)**	**7**	**33**	**48**
Margins, tax & returns					
Operating margin	5.2	1.3	5.8	19.2	23.1
Pre-tax margin	5.1	0.5	4.5	17.0	22.1
Tax rate	13.2	175.2	9.5	11.0	11.0
ROE	4.6	(0.4)	6.1	24.7	27.9
ROCE	5.3	1.1	5.4	20.8	27.2
Growth rates y-o-y (%)					
Total revenues	n.a.	124.6	40.0	27.9	13.3
Operating profit	n.m.	(41.9)	502.7	326.3	36.7
Pre-tax profit	n.m.	(79.9)	1,262.2	385.1	47.3
EPS (adjusted)	0.0	0.0	0.0	370.4	47.3

Cash flow					
(EURm)	**2016**	**2017**	**2018E**	**2019E**	**2020E**
Net profit	2	(0)	7	33	48
Non-cash adjustments	2	11	19	19	19
Cash flow before work cap	**4**	**10**	**26**	**52**	**67**
Ch. in working capital / Other	6	(2)	(3)	1	1
Operating cash flow	**10**	**8**	**23**	**53**	**67**
Capital expenditures	(5)	(67)	(17)	(18)	(18)
Asset disposals	0	0	0	0	0
L/T financial investments	0	0	(1)	0	0
Acquisitions / adjustments	0	0	0	0	0
Free cash flow	**5**	**(58)**	**5**	**35**	**49**
Net loan proceeds	2	62	0	0	(62)
Dividend paid	0	0	0	0	0
Share issue	5	0	0	0	0
Other	0	(0)	0	0	(0)
Net change in cash	**12**	**4**	**5**	**35**	**(13)**
Adjustments					
C/flow bef chng in work cap	4	10	26	52	67
Adjustments	0	0	0	0	0
Int on conv debt net of tax	0	0	0	0	0
Cash earnings	4	10	26	52	67
Per share information					
Cash earnings	0.01	0.01	0.03	0.06	0.07
Operating cash flow	0.02	0.01	0.03	0.06	0.08
Free cash flow	0.01	(0.06)	0.01	0.04	0.06
Investment cover					
Capex/sales (%)	9.4	55.3	10.2	8.3	7.4
Capex/depreciation (%)	166	610	90	95	96

Source for all data on this page: SEB

Balance sheet - Gaming Innovation Group					
(EURm)	**2016**	**2017**	**2018E**	**2019E**	**2020E**
Cash and liquid assets	6	12	17	52	40
Debtors	13	25	30	37	41
Inventories	0	0	0	0	0
Other	0	0	0	0	0
Current assets	**19**	**37**	**47**	**90**	**81**
Interest bearing fixed assets	0	0	0	0	0
Other financial assets	0	0	1	1	1
Capitalized development cost	0	0	0	0	0
Goodwill	64	69	69	69	69
Other intangibles	41	92	92	92	92
Fixed tangible assets	0	0	(2)	(3)	(4)
Other fixed assets	2	7	7	7	7
Fixed assets	**108**	**169**	**167**	**166**	**166**
Total assets	**126**	**206**	**215**	**256**	**246**
Creditors	15	29	34	43	48
Other trade financing	0	0	0	0	0
S/T interest bearing debt	0	0	0	0	0
Other	3	0	0	0	0
Current liabilities	**18**	**29**	**34**	**43**	**48**
L/T interest bearing debt	0	66	66	66	4
Other long-term liabilities	3	1	(3)	(3)	(3)
Convertible debt	0	0	0	0	0
Pension provisions	0	0	0	0	0
Other provisions	0	0	(0)	(0)	0
Deferred tax	0	1	1	1	1
Long term liabilities	**3**	**68**	**65**	**65**	**2**
Minority interests	0	0	0	0	0
Shareholders' equity	**105**	**109**	**116**	**148**	**196**
Total liabilities and equity	**126**	**206**	**215**	**256**	**246**
Net debt (m)	(6)	54	49	14	(35)
Working capital (m)	(6)	(4)	(5)	(6)	(6)
Capital employed (m)	105	175	182	215	201
Net debt/equity (%)	(6)	50	42	10	(18)
Net debt/EBITDA (x)	(1.0)	4.3	1.7	0.2	(0.5)
Equity/total assets (%)	83	53	54	58	80
Interest cover	0.0	1.5	2.1	8.9	22.8

Valuation					
(EUR)	**2016**	**2017**	**2018E**	**2019E**	**2020E**
No of shares, fully dil. (y/e)	629.6	895.7	895.7	895.7	895.7
No of shares, fully dil. avg.	632.1	900.0	895.7	895.7	895.7
Share price, y/e	3.1	4.9	5.1	5.1	5.1
Share price, high	5.1	6.2	6.4		
Share price, low	1.8	2.7	4.7		
Share price, avg	3.3	4.6	5.5		
EPS (reported)	0.00	(0.00)	0.01	0.04	0.05
EPS (adjusted)	0.00	(0.00)	0.01	0.04	0.05
Cash earnings/share	0.01	0.01	0.03	0.06	0.07
Dividend/share	0.00	0.00	0.00	0.00	0.00
Enterprise value/share	0.3	0.6	0.6	0.5	0.5
Book value/share	0.2	0.1	0.1	0.2	0.2
Adjusted equity/share	0.2	0.1	0.1	0.2	0.2
PER (adjusted)	n.m.	n.m.	68.7	14.6	9.9
CEM	56.3	43.0	18.3	9.2	7.1
Dividend yield	0.0	0.0	0.0	0.0	0.0
EV/EBITDA	35.9	40.3	18.3	8.1	5.9
EV/EBITA	75.4	313.3	54.2	11.9	7.8
EV/EBIT	75.4	313.3	54.2	11.9	7.8
EV/Sales (x)	3.90	4.18	3.12	2.28	1.81
Price/Book value	2.04	4.13	4.12	3.22	2.43
Price/adjusted equity	2.04	4.13	4.12	3.22	2.43
Free cash flow/Market cap (%)	n.a.	n.a.	1.3	7.3	10.4
Operating cash flow/EV (%)	4.6	1.6	4.4	10.8	15.3
EV/Capital employed (x)	2.0	2.9	2.9	2.3	2.2

Main shareholders

Name	(%) Votes	Capital
Bryggen Holding AS	13.2	13.2
Optimizer Invest Ltd.	11.5	11.5
Robin Reed	7.2	7.2

Management

Title	Name
COB	Helge Nielsen
CEO	Robin Reed
CFO	Tore Formo
IR	Anna-Lena Ahström

Company information

Contact	
Internet	www.gig.com
Phone number	0

Source for all data on this page: SEB

Target prices and risks

Target price definition and associated risks

Our target price is the analyst's assessment of what total return an investor should expect over the coming six to 12 months. The target is based on fundamental equity research and other factors at the analyst's discretion.

Our current target price of NOK 6.1 was set today (23 May 2018). The main risk to our target price on Gaming Innovation Group is as follows. The main risks are unfavourable regulatory changes and a shift in focus to in-house production of platforms, games, sportsbooks and affiliate services

Risk levels

The risk level is the analyst's view of the uncertainty in the earnings forecasts based on an assessment of the company's business model, operating risk as well as financial risk. We use two risk levels with the following explanations:

- **Normal risk:** All forecasts involve uncertainty and we view companies in this risk level to have normal forecast risks
- **High risk:** The earnings forecasts are more uncertain than for an average instrument due to business model, operating risk, financial risk or any other reason at the analyst's discretion. All instruments with shorter track record than 12 months as a listed company are by definition classified as high risk according to SEB.

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Methodology

Our target price is based on valuation approaches described in the Overview section of this report, unless our estimates are in the process of being updated. Final consideration as to any valuations, projections and forecasts contained in this report are based on a number of assumptions and estimates and are subject to contingencies and uncertainties, and their inclusion in this report should not be regarded as a representation or warranty by or on behalf of the Group or any person or entity within the Group that they or their underlying assumptions and estimates will be met or realized. Different assumptions could result in materially different results. Past performance is not a reliable indicator of future performance. Foreign currency rates of exchange may adversely affect the value, price or income of any security or related investment mentioned in this report. In addition, investors in securities, such as ADRs, whose values are influenced by the currency of the underlying security, effectively assume currency risk.

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The analyst(s) responsible for this research report (jointly with their closely related persons) hold(s) 0 shares in Gaming Innovation Group and do(es) not have holdings in other instruments related to the company.

Current recommendation for Gaming Innovation Group - Buy - was set on 22 May 2018. The dates of previous recommendation changes in relation to Gaming Innovation Group can be found on our Research Online website.

SEB's standardised recommendation structure

	Consolidated distribution as per 31 Mar 2018 (%)	Clients to whom SEB has provided material investment services, last 12M (%)	Clients from whom SEB has received investment banking income, last 12M (%)
Buy	51	18.7	10.2
Hold	37	10.3	6.7
Sell	12	2.2	2.3

Buy	Attractive risk/reward - at least 10% upside to target price.
Hold	Fairly valued – the security / instrument is trading close to target price.
Sell	Unattractive risk/reward - security / instrument is trading above target price.
Unrated	Company not covered, or we are not allowed to have a recommendation for compliance reasons

Source: SEB

Please note, in the chart to the right:

1=Buy

2=Hold

3=Sell

The grey spots mark the point where target prices have been changed. The price chart is not adjusted for dividends paid, whereas our recommendations are based on expected return including dividends

Target price and recommendation revision history

Source: Thomson Reuters / SIX / SEB

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