

A new growth engine

We initiate coverage of G5 Entertainment, a fast-growing mobile games company. Following a notch on the curve in 2019, when the largest title **Hidden City** peaked, the company has increased investment in development and a new generation of G5 games rejuvenated the growth trend in 2020. We see ample room for G5 to continue to grow revenue and improve profitability fuelled by a mix shift in the coming years.

Key Data (2021E)

Price (SEK)	502.50
Target price (SEK)	n.a.
Recommendation	Unrated
Risk	Normal
Reuters	G5EN.ST
Bloomberg	G5EN.SS
Market cap (SEKm)	4,372
Market cap (USDm)	519
Market cap (EURm)	430
Net debt (SEKm)	(302)
Shares fully dil. (m)	8.7
Avg daily turnover (SEKm)	78.6
Free float	88%

Industry veteran with a renewed proposition

G5 Entertainment (G5) is a mobile games company founded in 2001. It has a strong track record as a listed company: CAGR between 2010-2020 of 67% far outpaced the underlying market growth, whilst its stock produced a 66% annual return from ca. SEK 2.5 at end-2010 to 2020. Following a slump in revenue in 2019 when the largest title, **Hidden City** peaked, G5 is now back on the growth track with a new generation of games to drive financial performance.

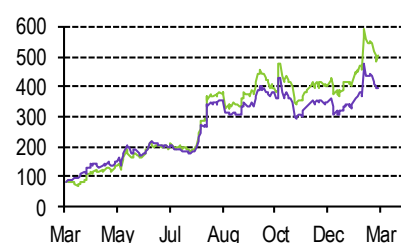
Next generation games to support double-digit growth and margin expansion

Our forecasts build on the assumption of continued high growth in the portfolio of new own games and a stable decline in **Hidden City** (external), CAGR of 22% and -10% respectively, summarising group organic growth CAGR of 12%. With support from the mix shift, where we expect the portfolio of own games to grow into c. 75% of the mix in 2023, we expect lower royalty payments, improved scalability and marketing efficiency provide scope to raise EBITDA margin by >5pp to 28.5% in 2023 vs 23% in 2020. With a strong earnings trend and cash generation, we estimate there is room for management to increase the dividend, or make acquisitions, which would underline upside to estimates.

Mid-point DCF value of SEK 645

Our DCF with 7.5% WACC provides a mid-point value of SEK 645 and a range of SEK 553-776 if we adjust our growth and EBITDA estimates +/- 2%. Implicit PER on our forecast on the mid-point DCF value is 25x-19x 21-23E.

Share Price (12M)



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

Marketing communication

commissioned by:
G5 Entertainment

Financials (SEK)

Year end: Dec	2019	2020	2021E	2022E	2023E
Revenues (m)	1,233	1,356	1,427	1,622	1,821
Adj. EBIT	59	190	247	278	337
Pre-tax profit (m)	52	189	247	278	337
EPS	4.98	19.1	25.6	28.8	34.8
Adj. EPS	5.72	19.1	25.6	28.8	34.8
DPS	2.50	6.25	7.00	8.00	10.0
Revenue growth (%)	(15.0)	10.0	5.2	13.7	12.2
Adj. EBIT growth (%)	(59.9)	220.5	30.1	12.6	21.0
Adj. EPS growth (%)	(60.8)	234.5	33.5	12.6	21.0
Adj. EBIT margin (%)	4.8	14.0	17.3	17.2	18.5
ROE (%)	12.3	40.9	43.1	36.1	33.4
ROCE (%)	16.2	45.6	46.9	39.1	36.5
PER (x)		21.1	19.7	17.5	14.4
Free cash flow yield (%)		4.1	4.2	5.3	6.5
Dividend yield (%)		1.5	1.4	1.6	2.0
P/BV (x)		8.16	7.29	5.54	4.27
EV/Sales (x)		2.46	2.85	2.40	2.02
EV/Adj. EBITDA (x)	0.0	10.7	10.7	8.9	7.1
EV/Adj. EBIT (x)	0.0	17.6	16.5	14.0	10.9
Operating cash flow/EV (%)		8.2	8.4	10.5	13.1
Net debt/Adj. EBITDA (x)	(0.80)	(0.58)	(0.79)	(1.07)	(1.33)

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

Contents

	Page
Investment summary	3
Industry veteran with new proposition	3
On a trajectory for profitable growth	4
DCF mid-point value SEK 645	5
Main risks and concerns	5
Company description	6
Brief introduction	6
Business model – value chain and F2P.....	7
G5 niche and success factors	10
Games portfolio overview	14
Sustainability	17
Financials.....	18
Financial targets	18
Track record and financial profile	18
Historical seasonality and recent events	22
Forecasts	25
Summary of financial forecasts	25
Primarily a growth company	26
Still room for profitability improvements	27
Main forecasting risks	28
Market Overview	30
World's largest entertainment industry	30
Mobile segment to remain a fast grower	32
Closer look at key markets Asia and NA	33
Game market trends	34
Peer overview.....	36
PC versus mobile, apples vs pears.....	36
Main mobile peers	37
The M&A angle.....	38
Valuation.....	39
Midpoint DCF equity value of SEK 645.....	39
Multiples vs history and peers	40
Appendix:	42
Shareholders	42
Senior management	42
Board of directors	43
Game gross rank data	44
Overview.....	47

Investment summary

Industry veteran with new proposition

Focus on free-to-play mobile puzzle games, genre leader in Hidden Objects

G5 Entertainment (G5) is a free-to-play games development and publishing company focusing on mobile platforms. We consider the company something of a veteran in the fast-paced industry, with inception in 2001 and listed on the Swedish stock exchange since 2006. G5 currently has ca. 700 employees spread over several offices throughout Europe and the US, but the majority is active in games development in the operations hubs in Ukraine and Russia.

The company has a strong track record as a growth company with CAGR 2010-2020 at 67%, far outpacing the underlying market growth, with a stock performance similarly at 66% annual return (not including dividends) from ca. SEK 2.5 at end 2010 to ca. SEK 405 at end 2020. While growth has historically been driven organically, G5 does not rule out M&A as part of its future strategy.

G5's claim to fame was its success in the Hidden Objects genre, where it became, and still is, a category leader, supporting a strong growth trend over several years. But as revenue from the top game, Hidden City (externally owned IP) peaked in 2018 following a strong four-year run, growth deteriorated, resulting in a 15% revenue slump in 2019. The company has since revised its strategy, increased investments in new games development and improved user acquisition efficiency, resulting in a distinct return to growth in 2020, 10% y/y.

New generation of G5 games to lead growth in the years to come

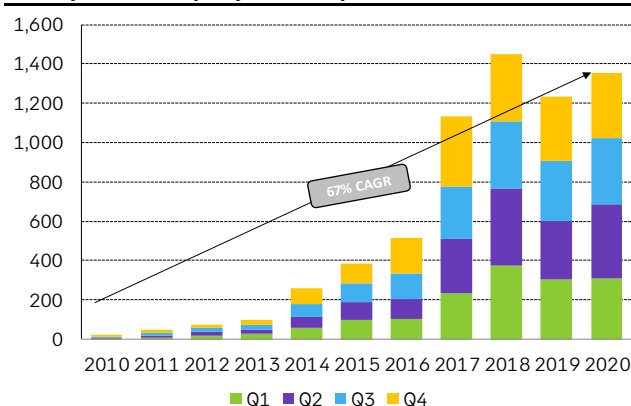
G5 has leaned on its core competence and niche within Hidden Objects, social game play elements and core audience of female players aged over 35, to develop a new generation of G5-games with improved meta-game layers and a genre-broadening towards Match-3 and Mashups within the casual and puzzle games category. In 2020, the company launched eight games, where strong growth in the new products, especially the Jewels series with Jewels of Rome rising to become the group's second largest game in March 2020, have been able to offset the weaker performance in Hidden City. The company has a similar product roadmap for 2021, of at least six games, i.e. one or two new games per quarter. With successful execution, there is scope for the new generation of games to take the baton from Hidden City and drive top line growth for the years to come by increasing both user base and monetization.

Founded in 2001 and listed since 2006 underlines long track record

Slump in revenue in 2019 as Hidden City peaked

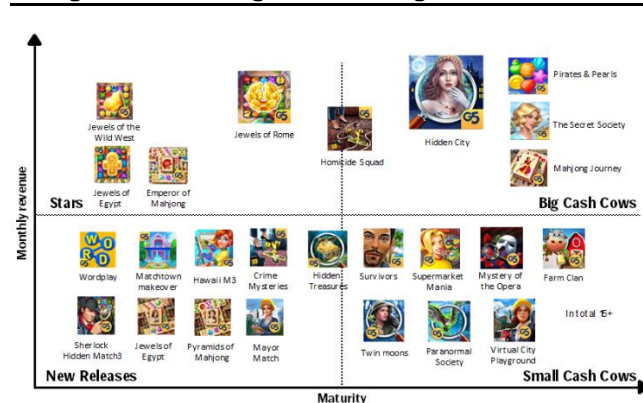
Genre broadening to Mashups and Match-3 in next gen games

History: Revenue per year and quarter SEKm



Source: SEB

Next generation of G5 games to drive growth



Source: SEB

On a trajectory for profitable growth

No financial targets have been communicated

We forecast EPS to almost double from 2020-2023 to SEK 35

Mix shift to drive growth and room for margin improvement

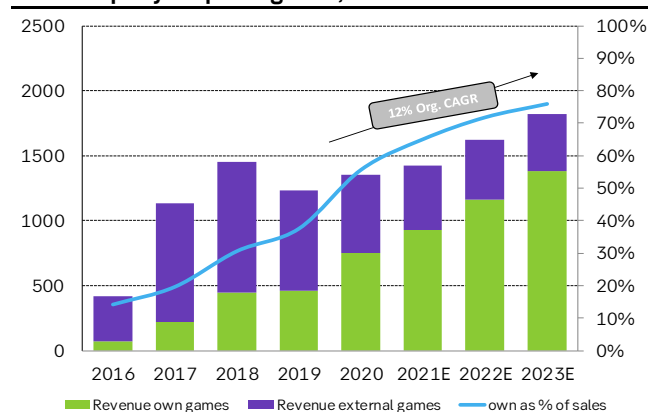
The company has not issued any financial targets, or guidance, which obviously leaves some uncertainty in estimates. However, we do not expect the performance over 2021-23 to deviate materially from the path set up in 2020. We see scope for the company to combine double-digit organic growth with improving profitability, supported by the scalable business model and revenue mix shift towards a higher share of own games.

We model a continued decline in revenue from the external games portfolio (Hidden City) of -10% CAGR, and for own games to continue a strong growth trajectory at CAGR of 22%. To fuel growth, we see sales and marketing costs at a couple of %-points below 30% of sales, although for the next few quarters being slightly lower, and we expect own games to grow to ca. 75% of mix in 2023. We expect growth active users (MAU), paying users (MPU) via the new games to be main drivers, but also support from spending per user (MAGRPPU).

We forecast SEK 1.8bn in revenue 2023 with 18.5% EBIT margin

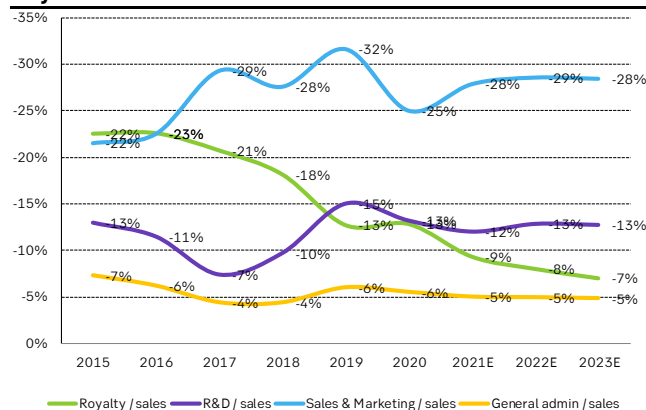
On a group level, we forecast G5 to generate c. SEK 1.8bn in revenues by 2023E. Supported by the mix shift of more revenue from own games, according to our estimate, lower royalty payments could lift the gross margin to ca. 65% from the current level of just below 60% and improved efficiency and scalability aid to expand EBITDA margin in our model from 23% in 2020 to 28.5% in 2023E with EPS almost doubling during the forecast period from SEK 19 to SEK 35.

Revenue per year per segment, SEKm



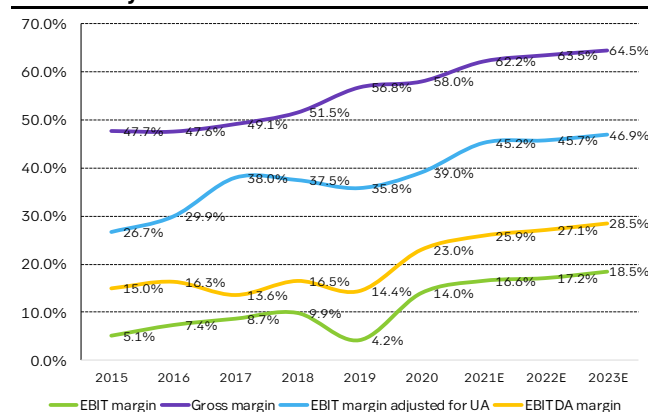
Source: SEB

Key cost items in relation to sales



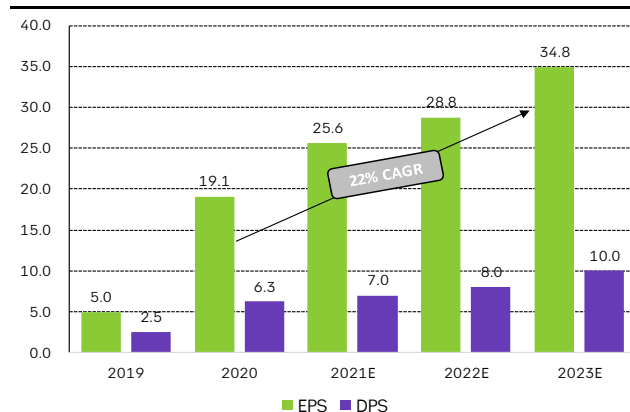
Source: SEB

Profitability



Source: SEB

EPS and DPS



Source: SEB

DCF mid-point value SEK 645

Our DCF model with 7.5% WACC yields a mid-point value of SEK 645 and a range of SEK 533-776 if we adjust our base case EBITDA margin and growth forecasts by +/- 2pp.

Valuation Summary

Share price (SEK)	503		
Market Capitalisation (SEKm)	4,372		
YTD share performance	25		
Mid-point DCF value (SEK)	645		
	Low	High	Mid-point
DCF valuation range	533	776	645
Implied multiples at mid DCF value	2021E	2022E	2023E
EV/Sales	3.8x	3.2x	2.7x
EV/EBITDA	14.1x	11.6x	9.5x
PER	25.2x	22.4x	18.5x
Multiples mobile peer group median			
EV/Sales	4.2x	3.6x	n.a
EV/EBITDA	15.2x	12.8x	n.a
PER	22.7x	21.9x	n.a

Source: SEB, 02/03/2020

Mid-point DCF value SEK 645

Listed peer group and multiples

Our mid-point DCF value corresponds to an implicit P/E adj. of 25-19x 2021-2023E and 14-9.5x EV/EBITDA and the shares are currently trading at 19-14x and 10-7x respectively which is meaningfully lower than the mobile peer group. Considering that G5 is free of long-term interest-bearing debt and accumulates cash in our forecast, the forward looking EV-based multiples decrease quite fast. In our view, these multiples may be more relevant when comparing against peers as some incorporate acquisitions as a big part of their business models, leading to higher debt and non-cash amortization. Key locally listed peers are Stillfront and Rovio, but given the global nature of the games market it is also relevant to view performance relative to foreign mobile companies such as Zynga or Nexon and the larger publishers that have mobile segments such as Activision Blizzard, Electronic Arts, Embracer.

Main risks and concerns

Forecasting visibility and execution are the main risks

The lack of targets and guidance create uncertainty where we have made many assumptions around the strategy, for example, user acquisition spending, where there is a big difference in profitability potential if the company invests 15% or 25% of sales in acquiring users. Moreover, the company is dependent on the popularity of its games in the highly competitive market and that its user acquisition models are correct in predicting user life-time-values; failure in execution would underline downside to our estimates. G5 also has dependency risk related to the publisher agreement with Happy Star Games relating to Hidden City. How the removal of IDFA in IOS will affect the industry and G5 is also an uncertainty.

With a strong balance sheet and cash flow generation, we believe it is possible that G5 could make acquisitions that would bring upside to our estimates. A successful implementation of in-game advertisements could also be a positive to estimates, where the company has mentioned the ambition to generate 1-3% of sales from ads – this could have a high drop-through to earnings and profitability, which is not reflected in our estimates underlining potential upside.

Forecasting visibility is low, given fast paced market

Upside to estimates from M&A and roll-out of more advertising

Company description

Brief introduction

Founded in 2001 G5 is a mobile games industry veteran

G5 Entertainment (G5) is a free-to-play games development and publishing company focusing on mobile platforms, founded in 2001 in Russia and listed on the Swedish stock exchange in 2006 following interest from a group of Scandinavian investors. The company currently has ca 700 employees, spread over several offices in Europe and the US, but the majority is active in games development in the operations hubs in Ukraine and Russia.

The company is best known for its success in the Hidden Object category where among several titles, the publishing game, Hidden City, launched in 2014, achieved strong breakthrough and remains the largest game of the company as measured by revenue, also today. Over its history, G5 has shown adaptability to market trends, including the transition from feature phones to smart phones and from pay-to-download to free-to-play and current focus is to accelerate growth from new own-developed games.

G5 Entertainment timeline and key milestones



2001	Founded by Vlad Suglobov, Sergey Shults and Alexander Tabunov
2003	First game for feature phones released in USA
2006	IP O of G5 Entertainment shares in Sweden (NGM Nordic SME)
2009	First game for Iphone (Smartphone)
2013	Pivot to Free-to-Play
2014	
2019	Next generation of games, with increased focus on own development
2020	

Source: G5 Entertainment

G5 is, and has been for a long time, a multinational company that has ample experience of a distributed workforce and remote management, something that has become a new reality for many other companies during the Covid-19 pandemic. Although the company has most of its development operations in Ukraine and Russia, the parent company is Swedish, and shares listed on the Swedish Mid Cap exchange have ca. SEK 3.3bn market cap. Billing and ownership of IP is handled by the office in Malta where the COO resides. The CEO and founder, Vlad Suglobov, works in the San Francisco office and CFO, Stefan Wikstrand, works from Sweden.

G5 employees and offices at end of 2019 – headcount in Q320 ca 700

Multinational company, with centre in Ukraine/Russia



Source: Annual report 2019

Business model – value chain and F2P

G5 has both development and publishing business

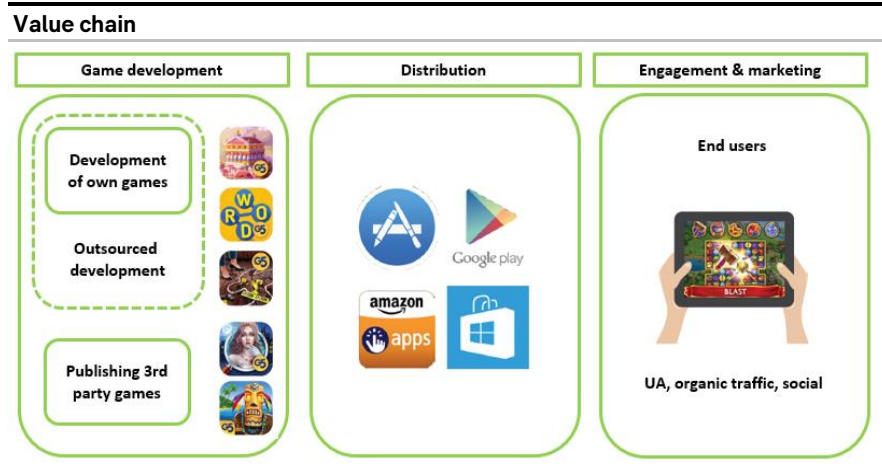
G5 Entertainment is both a developer and publisher of free to play games. It has a portfolio of its own developed games and publishing contracts where it handles the go-to-market part of the game. This mainly acquiring users for its partners with home it then splits the profits, typically after costs for distribution and user acquisition have been deducted. Hidden City is such a title.

Digital distribution via a handful of large stores

The games are distributed via the digital stores for handheld devices (and browsers) with the most important ones being Apple's App Store for IOS devices, Google Play for Android and Microsoft Store and Amazon stores for the respective devices and ecosystems. There are several smaller app stores available too, such as Samsung Galaxy Store and Huawei AppGallery, but G5 does not disclose its revenue split between the different stores. Given that G5 does not develop PC or console games, it does not distribute via Steam, EPIC or PlayStation Store.

The distributor takes a commission on all purchases that are handled via its ecosystem, which typically is 30% in the industry, but we have seen some distributors cutting prices over the past year, broadly, or for certain segments. Apple now takes 15% in Appstore for small developers with revenue of USD <1m.

Distributors an important stakeholder in ecosystem



Source: SEB, G5 annual report 2019

G5 engages with customers and attracts users by marketing in different digital channels, it can be on banners inside the app store, on social media or via advertisements in other games. Traditional promotional channels such as television can be used but is not as common given the difficulty in tracking ROI, whereas in the digital landscape the time from exposure to installing and playing the games is very short and straightforward.

It is free-to-play, but gamers choose to pay for in-game features

The revenue model for the mobile games segment has undergone a fundamental change with the shift from pay-to-download to free-to-play, which now accounts for close to 99% of all mobile game revenue. For readers that are not familiar with the concept, free-to-play (F2P) or in-app-purchases, is where the game is free to download and play and monetisation arises from microtransactions, i.e. the player buys in-game items or pays to unlock additional features or perhaps to get past a certain obstacle or level. The price for a certain transaction is typically small, say USD 1, but a player can also buy a batch of in-game credits or bundle, for example, USD 10 or USD 50 instead.

G5 Entertainment revenue streams and mix

	Pay to download	Free to play	Royalty Income	Advertisement	Publishing
G5 Entertainment	Legacy	Focus	No	In the pipeline	Important
Est. % of 20E revenue	<1%	>99%	n.a.	<1-3%	Ca 40%

Source: SEB, G5

G5 generates revenue via in-game microtransactions...

...but will explore advertising as a new source of growth

In-app-purchases are currently the main revenue model for G5. Another common way a game maker can earn money, or simply allow consumers to play for free, is to include marketing in the games, such as showing a short video, a pop-up, or a banner. G5 has historically not monetised via advertisements in its games but has communicated that it intends to implement this, cautiously, so as not to damage the game experience, and guides that in the future this will make up 1-3% of group revenue. This can be compared to, for example, sector peer Rovio which currently makes about 15% of games revenue from advertising. We do not have data on what could be considered an average level. The high share of revenue from in-game advertisements is usually common to increase average revenue per user in the hyper casual segment where either the general spending is low, or if the game/user inflow has stagnated and the developer wants to maximise profit.

Managing the user base and customer journey to drive revenue

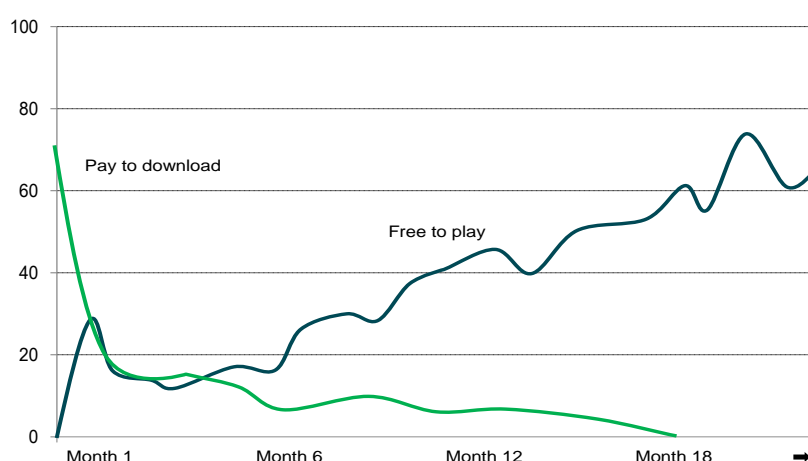
A simple explanation of how revenue for free-to-play mobile games is generated is a funnel of three factors:

$$\text{Number of users} \times \text{Share of paying users} \times \text{Spending per paying user} = \text{Games revenue}$$

Free-to-play has resulted in longer game lifetimes

The in-app micro-transactions have enabled more stable and recurring revenues streams versus the short-lived life cycle of pay to download, or most PC and console games, where most revenue is generated in the first month. Given that a company can continue to develop the games and update, improving the gameplay, churn can be minimised, and a compounding effect can be achieved with long lifetimes for the games if the user base continues to grow and monetisation improves.

Pay to download vs free-to-play revenue pattern (daily revenues on Y-axis)



Source: SEB Illustrative.

With proper execution, a F2P game can be long-lasting

The share of paying users for free-to-play games is generally relatively low – we estimate a range of 0-10% depending on maturity and type of game, region and target group, with prominence for most games and companies to have a ratio at the low end. G5's share of payers has ranged 3-3.5% over the past year.

Abundance of available apps and games is the biggest challenge

More complex environment favours experience

Knowing your core target group is key for growth and profitability

Competition is intense, but complexity is raising entry barriers

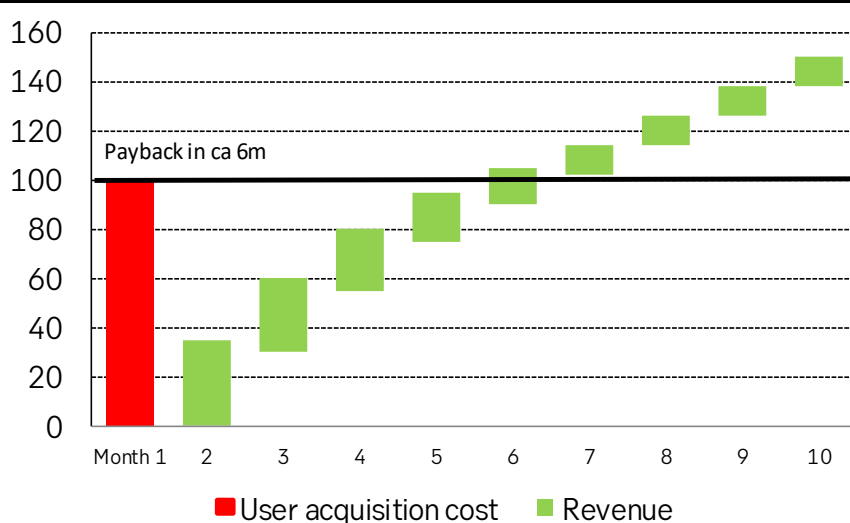
The free-to-play model initially lowered the barriers to entry and paved the way for more developers to enter the market, especially as game development tools are available for free or for a small royalty. In order to get a sense of how crowded the “shelf space” is, BusinessofApps.com reported in October 2020 that the number of apps in the IOS App Store had increased from 500 when it launched in 2008 to 1.85m. With improved, more capable handsets and the emergence of cross-platform-play, pure mobile developers now to some degree also compete with PC and console games that have been ported to mobile a platform, for example, you can play Fortnite on a smartphone with other participants playing on a PC or console. Success depends heavily on operational excellence and a company's ability to manoeuvre the increasingly complex environment. This has raised the barriers to entry, favouring established companies. The bar on game performance today is higher – it's not enough to develop just any game; discoverability and keeping the player's engagement require high marketing budgets and knowing how to spend it efficiently.

Customer acquisition spending is a key component in the business model

The release of a game is typically done through a soft launch, where the game is made available on (virtual) stores and marketed to targeted consumer groups and geographies, generally over Facebook, Instagram or other social media, or via in-game marketing in its other titles or third party titles. Developers then measure how well the game is received by the target group. If feedback is positive, the company starts to push more marketing and a global launch.

In the first year or two, a game may be loss-making operationally, although revenue could be growing fast, because the cost for acquiring customers is taken upfront but the revenue contribution is distributed over the game's lifetime. Employees of a gaming company get to know the behaviour of customer groups, or its knowledge of certain segments and markets is already good, so that statistical models can be developed depending on player behaviour which can then be segmented and predictions can be made. Depending on how confident a company is about its data models or how aggressively a company intends to grow a game, it may adjust spending to get payback on its marketing investment, over, for example, six, 10 or 12 months.

User acquisition and revenue payback model (Illustrative)



Source: SEB

This is typically how most developers manage their marketing efforts; however, the model is dependent on many external factors such as the price of advertisements or search words and how that affects expected ROI.

Managing the user acquisition strategy is one of the most important operations of a free-to-play company. High efficiency will dictate the growth and profitability potential of a game whilst poor execution, poor predictions or change in player patterns may prove very costly. This is partly why smaller studios at times choose to work with publishers that have more experience.

G5 niche and success factors

Although a small company in absolute measures, G5 has managed to establish a strong presence in its niche. In order to support further growth and shareholder value creation, the company has outlined four success factors:

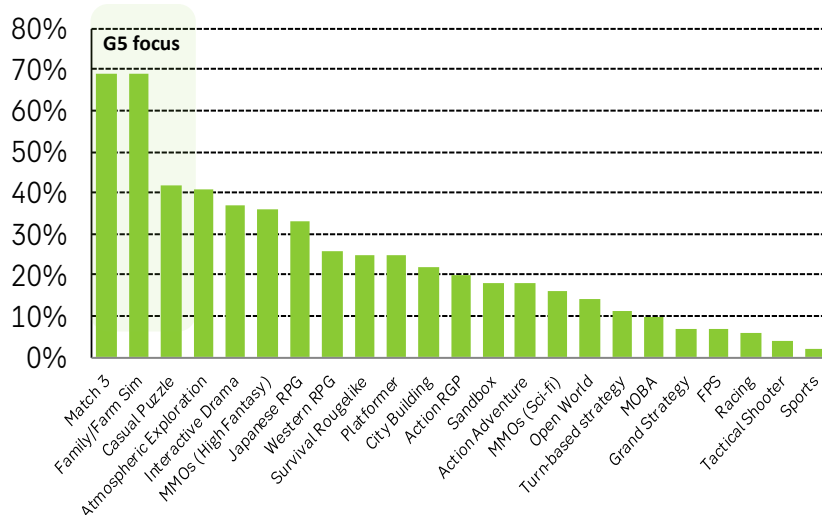
1. Players – females aged over 35

The target audience for G5 games has remained the same over time, also considering expansion into new sub-genres, with focus on games for women over the age of 35, which is identified by the company as a globally growing demographic group in the games market and usually financially strong with high loyalty to their games, i.e. high retention.

In order to support retention and satisfaction among its players, G5 also has a social network “G5 Friends” in order to promote engagement, add a social element to the game play and hopefully help to retain the gamers within the G5-universe of games.

In G5’s successful titles, women account for 70% of players, which can be compared to estimations of 50% split between female and male for the mobile game segment on the whole, according to New Zoo. Based on market research by Quantic Foundry, Match-3 is the most popular category among women, followed by family/farm sim and Casual Puzzle whereof we would categorise Hidden Objects as a sub-genre of the latter. At the bottom of the list for genres popular among women are sports, shooters and racing games.

Share of female players per genre as reported by Quantic Foundry

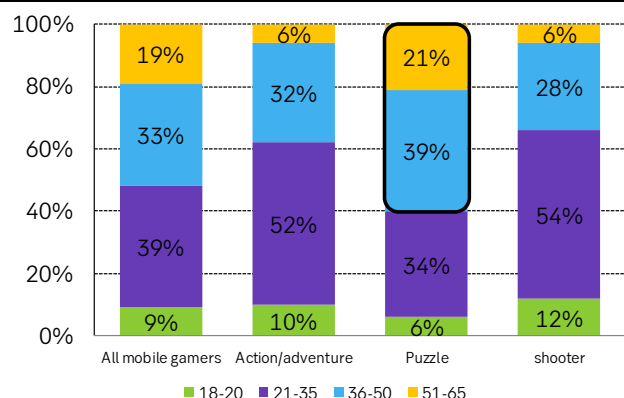


Source: Quantic Foundry 2017 – Beyond 50/50: Breaking Down The Percentage of female Gamers by Genre.

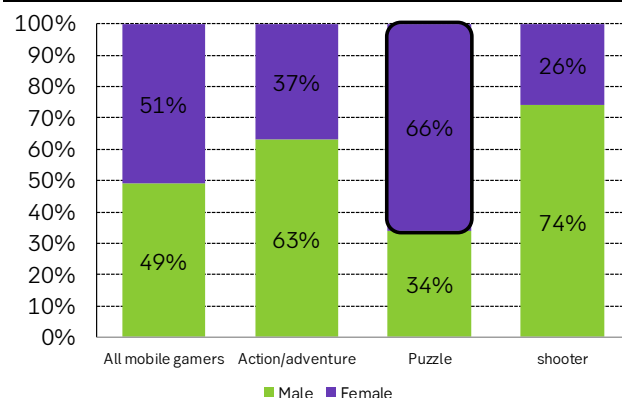
NewZoo presented similar findings to Quantic Labs in a 2019 report, Unlocking the Power of Mobile Gamers, where the demographic +35, both male and female, is found to be in majority in the Puzzle genre, representing ca. 60% of total users, and among those who play Puzzle games, 66% are female.

Core target group of females +35, is a growing demographic

G5 friends - to improve stickiness and engagement

Players by genre and age cohort

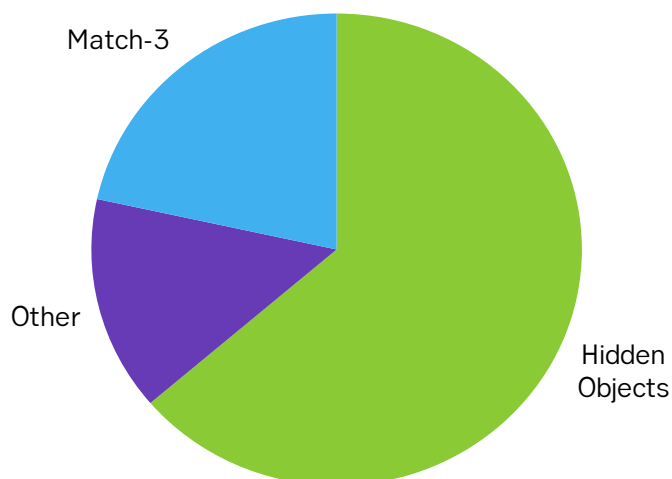
Source: SEB, Newzoo

Players by genre and sex

Source: SEB, Newzoo

2. Game Genre Expertise – Puzzle Games

G5 has previously been associated with the Hidden Object genre, where it is still a market leader with, according to the company, ca 20% market share in Q2 2020. At one point, according to the company, it had some 50% market share but over the past year revenue from the top publishing game Hidden City has declined, competition has increased, and the company has branched out into the larger Puzzle Games category with Match-3, Solitaire/Match-2 and Word Games. The common denominator for the sub-genres is that they are all usually defined as casual games, with low effort or engagement level needed to understand and follow gameplay, focused on problem solving and popular in G5's core player category of women aged 35+.

G5 Entertainments revenue by genre - Q2 2020

Source: SEB

G5 focus on casual puzzle games with legacy as genre leader in Hidden Objects category

The game play of a Hidden Object game centres around finding hidden objects, as the name describes. Often, these items are specified on a list in different artistic environments or pictures and part of a story line, some Hidden Object games may have similarities to graphic novels. Overall, the gameplay is simple to understand and get into and game sessions can be kept both long or very short, for example when commuting or waiting in a queue.

Plenty of growth leeway in the Match-3 genre

Match-3 is much larger than the Hidden Objects sub-category. G5 estimates it only has about 0.3% market share, according to numbers presented in the Q2/20 report, which should underline large growth scope, but as a mainstream segment, competition is fierce and success not evident. We look deeper at the different segments in the market overview section of this report.

Genre Mashups is also common and, as we understand it, a growing trend, where strategy, adventure or role-playing meta-gameplay layers are added to, for example, the core game, which could be a Match-3 or Hidden object game. This is done in order to increase the engagement of the user and raise entertainment and monetisation levels. As an example, the G5 Match-3 Jewels of Rome from the Jewels series uses such mechanics, prompting you to *"match gems and restore a roman village"*. We believe mastering this type of mechanic to create entertaining game play is key to standing out in the competitive market.

3. Development

G5 Entertainment has a large workforce of ca 700 FTEs, of whom around 600 work within games development and quality assurance in the Eastern European and Russian offices. The company has the capacity to develop several new games simultaneously and keep its larger titles alive with new content. Launch activity in 2019 and 2020 is a testament to this with five and eight new games, respectively.

Game development via proprietary Talisman engine

High quality mobile games generally take over a year to develop: a small, less sophisticated game can be developed slightly faster but it can take twice that time if it is a large production. The wide range makes it difficult to assess a typical budget for a mobile free-to-play game, or specifically, a typical G5 game. From our experience, based on discussions with management in G5 and sector peers, a top tier mobile game can cost USD 5-10m to develop, although most games cost less than this and we think G5 is more likely in the USD 1-2m range. However, as successful free-to-play games continue to be developed with new features and levels over time, the total development post launch of a long-lived game may go over the initial development budget.

The company has developed its own game mechanics and development tool which is called the Talisman which gives G5 games their characteristics and functionality. Although a large part of the work is specific for the individual game's mechanics, base functionality can easily be reused for new games and can be applied to storylines and characteristics that will complement the original game and reach other player segments in an alternatively efficient way. Having proprietary development technology also allows the company to continuously enhance and update gameplay mechanics for the whole portfolio.

4. Marketing

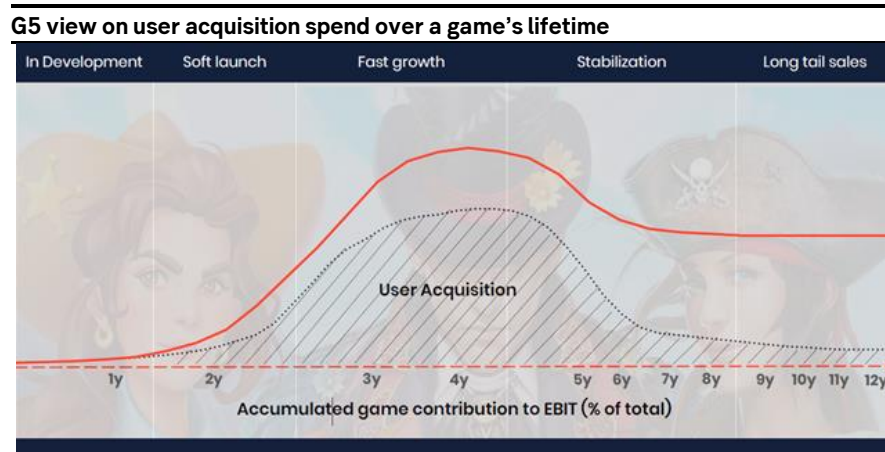
G5 has a new user acquisition team in place. The company reports that it is seeing a better return on its work with user acquisition following investments to develop its analytical capabilities. The fundamentals have not changed, the company is pursuing the same core target groups and markets but has improved its data-driven approach, applying algorithms that analyse user behaviour to get higher accuracy in predictions and return on spending. Management commented in the Q3 conference call that it is happy with the progress and that it is still in the process of improvement and learning, but it is not yet at the same level as industry leaders but there is scope to catch up.

New user acquisition team and strategy to improve efficiency

According to G5, the base case planning scenario is that the marketing cost typically has a payback period of around six months when acquiring a cohort of users, and that a high share of the investment may be repaid relatively quickly. Consequently, the company can soon see if the game is successful and if marketing efforts should be either increased or decreased. The approach is typically to invest where demand is strong in order to get best payback, all supported by data analysis. The company comments that the payback cycle and monetization levels differ somewhat between Hidden Objects and Match-3. Match-3 is in general a category with high monetization and the user acquisition strategy must be adapted to the game type.

The UAC strategy changes over a game's life cycle where in the early phase after launch UAC may well exceed 100% of revenue and slowly scale down as revenues increase. When a game reach saturation or maturity it is common that the focus shift towards earnings maximisation and less focus is given towards finding new users and more towards monetization of the existing user base.

User acquisition spend change over game lifetime



Source: G5 investor presentation Q2 2020

G5 does not disclose user acquisition spend per game, but looking at industry peer Rovio as an example, we can see that the level of investment into a game in a ramp up phase may significantly differ from a mature game. For Rovio, user acquisition investment in the growing games has been between 40% and 169% of sales since Q1 2019 and for the matured part the range is 10-23%, underlining how the group's overall user acquisition spend and earnings profile is impacted by the maturity of the portfolio and we believe that this is not unique for Rovio but probably applicable to the industry as a whole and to G5 and its two segments, own games and external.

In recently launched games it can be >100% of revenue and mature games 10-15%

Rovio UA as % of sales on different segment

Rovio	Q1/19	Q2/19	Q3/19	Q4/19	Q1/20	Q2/20	Q3/20	Q4/20
UA % of sales on "Earn"	23%	14%	20%	16%	12%	14%	10%	11%
UA % of sales on "Grow"	169%	108%	104%	101%	49%	40%	54%	53%

Source: SEB, Rovio

Games portfolio overview

Broad portfolio, new generation of own games to drive future growth

G5 has an active portfolio of around 30 games and historically its focus has been on the niche of Hidden Object games where the publishing title Hidden City is the leading game for the group. It was released in 2014 and G5 has several other games that have shown long lifetimes, such as Secret Society, which was launched in 2012. The company is now in a transition where a new generation of games is being launched in order to drive future growth as the older part of the portfolio enters more mature part of the lifecycle.

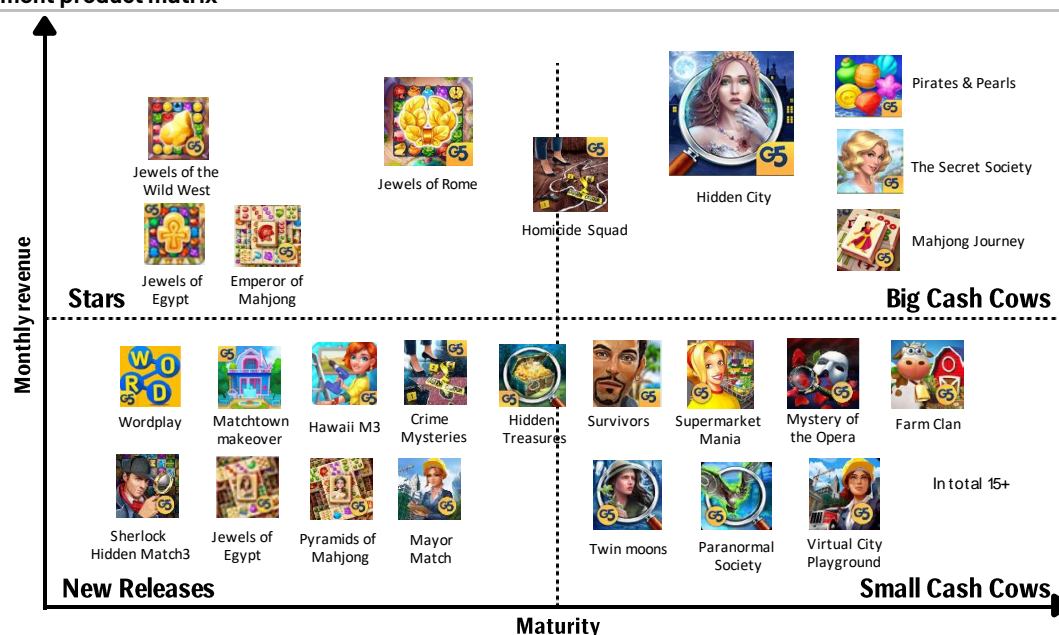
Overview of key games – rank according to March 2020

Rank	Title	Genre	Intellectual property	Launch
1	Hidden City	Hidden Objects	Happy Star Games	2014
2	Jewels of Rome	Match-3	Wholly Owned	2019
3	Mahjong Journey	Match-2/Solitaire	Wholly Owned	2014
4	The Secret Society	Hidden Objects	Wholly Owned	2012
5	Homicide Squad	Hidden Objects	Wholly Owned	2017
6	Pirates and Pearls	Hidden Objects	Wholly Owned	2017
7	Survivors: The Quest	Hidden Objects	Wholly Owned	2014
8	Hidden Treasures	Hidden Objects	Wholly Owned	2019
9	Emperor of Mahjong	Match-3	Wholly Owned	2019
10	Supermarket Mania Journey	Simulation	Wholly Owned	2015
New Games				
-	Mayor Match	Match-3/City building	Wholly Owned	2020
-	Jewels of Egypt	Match-3	Wholly Owned	2020
-	Jewels of the West	Match-3	Wholly Owned	2020
-	Hawaii Match-3 Mania	Match-3	Wholly Owned	2020
-	Crime Mysteries	Hidden Objects/Match-3	Wholly Owned	2020
-	Sherlock Hidden Match-3	Match-3/Hidden Objects	Wholly Owned	2020
-	Pyramids of Mahjong	Match-2/Solitaire	Wholly Owned	2020
-	Match Town Makeover	Match-3/Home makeover	Wholly Owned	2019

Source: SEB

On the 2020 AGM presentation G5 provided an overview of its games from a portfolio performance perspective, a sort of adaption of the BCG product matrix with maturity and revenue contribution on the axes. It is worth pointing out that not all games become Stars or Small or Big Cash Cows: some games fail to get traction and are discontinued.

G5 Entertainment product matrix



Source: SEB, updated version of chart from AGM presentation 2020.

Hidden Object the core of the portfolio and Hidden City the star

Hidden Object games remain the core of G5's product portfolio. In Q2 2020 when we last received a data point on revenue per genre it was around two-thirds of total revenue. The largest game, Hidden City, is externally owned by Happy Star Games and was launched in 2014. Hidden City has evolved its game play significantly over the years and involves thousands of core game play missions and a large variety of mini games in addition to an engaging storyline.

Hidden City Core Game Play

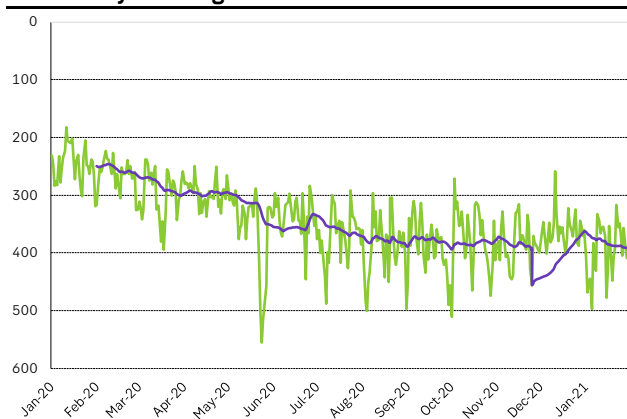


Source: G5 corporate web page /screenshots.

G5 manages the go-to-market i.e. customer acquisition strategy, and Happy Star focuses on continued development of the game. G5 pays a royalty to Happy Star for the earnings generated from Hidden City, on a "contribution profit" basis which means that the companies split the profits after commission fees to distributors and user acquisition costs. This has a direct impact on G5's gross margin and means the royalty pay-out depends both how well Hidden City grows and how much the company has invested in UA for the game.

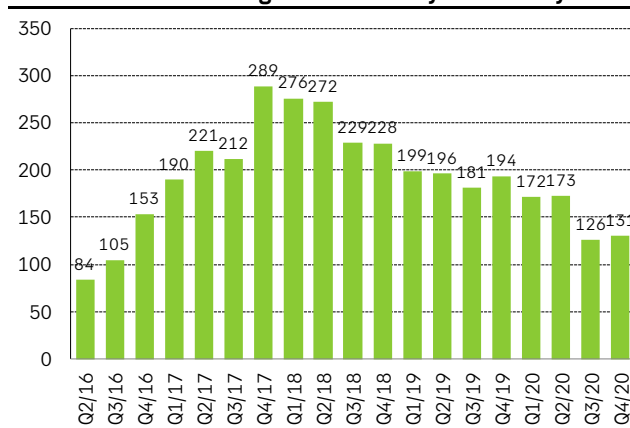
Our interpretation is that Hidden City currently accounts for most of the external game revenue, >95%, and following a strong performance after launch it has been on a negative revenue trend since Q4 2017, down more than 50% from its peak level. Data from AppAnnie, which is a service that tracks app performance relative to other apps, points to an average grossing rank for Hidden City in the Games category of c. 300 on Google Play and c. 375 on IOS devices, with the trend being neither improving or worsening over Q4.

Hidden City iPhone gross rank USA



Source: SEB, G5 data

Revenue from external games i.e. mainly Hidden City



Source: SEB, G5

Match-3, Mashups and the "Jewels franchise"

In G5's ambition to grow more via its own development and branch out beyond the Hidden Object genre a series of Mashup games and Match-3 games has been launched over the last two years. Jewels of Rome is one of the more prominent titles. Released in Q1 2020 the game quickly rose to become G5's second largest title in terms of revenue, and with efficient adaptations of the core games into new titles, the portfolio is quickly increasing in breadth.

Other games in the “Jewels franchise” include Jewels of the West (2020) and Jewels of Egypt (2020). The core of the game is the classic Match-3 mechanic and city building, where your task is to rebuild the ancient Roman city whilst venturing through a storyline and encountering characters. The other games in the series have the same mechanic and build-up but take place in a different environment, the Wild West or Egypt.

Jewels of Egypt – sister game of Jewels of Rome, mash up of Match-3 and City Building

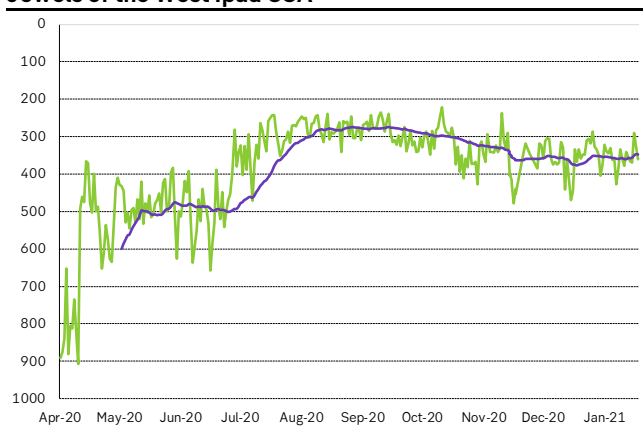


Source: G5 corporate web page /screenshots.

Hawaii Match 3 and Match Town Makeover combine the Match 3 game play and city building with more emphasis on city and home design elements. Sherlock: Hidden Match-3 Cases is a mash-up between Hidden Object and Match 3. A series of Mahjong Mashups has also been launched which combine Match 2 i.e. Mahjong and City Building in the same style as the “Jewels Franchise”, Sheriff of Mahjong, and Pyramids of Mahjong, with a similar build up to the Match-3 Jewels series.

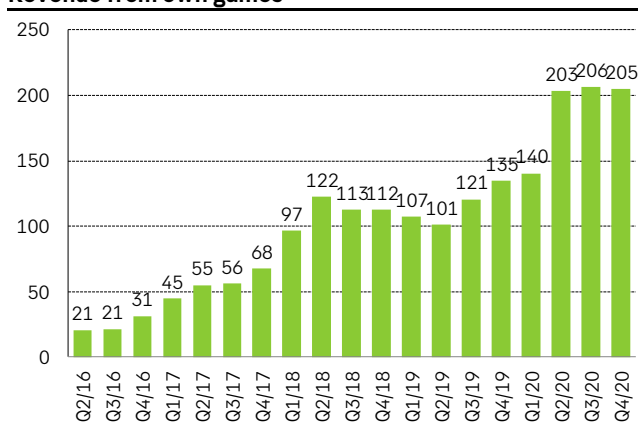
In total the company released eight new games in 2020 which was a significant uplift versus 2019 when the company launched five games, and this is visible in the revenue development for own games. The planning scenario for 2021 is to release at least six new games; one game is currently in soft launch according to comments in connection with the presentation of the Q4 results.

Jewels of the West Ipad USA



Source: SEB, G5 data

Revenue from own games



Source: SEB, G5

Sustainability

Sustainalytics rating

Sustainalytics gives G5 Entertainment a Medium ESG risk rating at a score of 21.8, where it is ranked in 84th percentile in the Entertainment Software subindustry, where main remarks relate to poor disclosure and lack of policies and programmes to manage risks related to ESG issues. It does not have evidence of any current or historical controversies or incidents in its database.

Sustainalytics ESG rating of G5

Medium Risk



Source: Sustainalytics

Low environmental footprint as a digitally oriented company

In general, we agree with Sustainalytics conclusions: that the entertainment software industry and G5 inherently have lower risk relative to other industries given their low environmental impact. We also think that disclosure from the company are underdeveloped and could be improved, which would justify a lower score and signal better accountability to the public and investors. The main issues we identify relate to data security and responsibility as an employer, which appear to be managed adequately, although disclosure is a bit poor, and the risk of political or economic instability in for example Ukraine and Russia. The company manages this by housing critical code and funds in the EU, via its Malta subsidiary. We note that one of G5 Entertainment's board members is under investigation by the Swedish Economic Crime Authority. In a press release dated 4 December, the company said the board member will not participate in board work until more information regarding the investigation has been presented and that neither G5 Entertainment nor any other board member are suspected of unlawful actions.

Below we outline company reporting and our view on its sustainability profile.

Limited environmental impact

For a company like G5 Entertainment, which is mainly a digital company, core business operations have very limited environmental impact and the company usually rent offices and doesn't own property to any large degree. G5 mainly affects the environment through employee travel and via its computer hardware. As the company is geographically diversified, with operations in five countries, the company as far as possible aims to replace travelling with digital meetings.

Social factors and data protection main sustainability topics

As an employer of more than 700 people in Russia, Ukraine, Sweden, the US and Malta, managing people, the work environment and social stakeholders and factors is a prominent sustainability topic for the company. G5 says it contributes to local and regional economic growth by creating jobs and paying taxes and duties where it operates and aims to act in accordance with existing legislation at national and local levels. The company has a code of conduct for the company as a whole and each office has own policies and recommendations to develop a good work culture and gender balance. Staff turnover was 21.8% in 2019, up from 15.8% in 2018. The company states that a large proportion of employees are young, which has a negative impact on staff turnover as it is sometimes their first job from which they later move on. The company also underlines that political and economic instability in Ukraine is a risk factor that could negatively impact the company.

Social factors, IT security and geopolitics most important

Financials

Financial targets

G5 Entertainment has not issued any financial targets, although it has communicated strategic guidelines:

- G5 shall continue to focus on its core audience of women 35+.
- Offer top quality content in our games, existing and new.
- G5 shall exceed market growth by maintaining the engagement of existing customers and winning new players.
- G5 shall in a responsible way, venture into new and adjacent genres and target groups.

No financial targets have been issued

Under the financial target section in the annual report the company underlines its intention to continue to re-invest profits in activities that promote organic growth, and we view G5 primarily as a growth company although history underlines that there is scope for decent profitability as well. G5 has paid dividends the last four years but has not committed to a payout target.

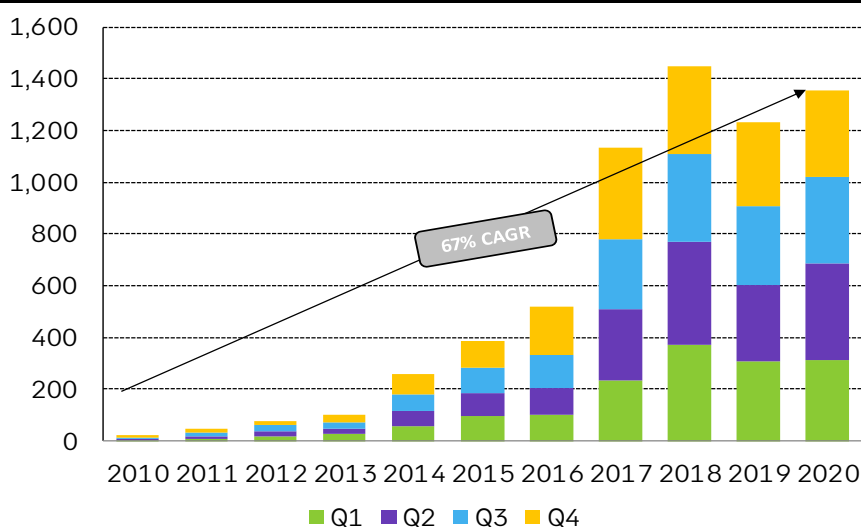
Track record and financial profile

A growth company with proven track record

G5 Entertainment has a strong track record as a growth company. The CAGR between 2010 and 2020 was 67%, far outpacing the underlying market growth. The share price performance reflected the high growth with a 66% annual return (not including dividends) from around SEK 2.5 at end of 2010 to SEK 405 at end of 2020 and it is now trading at c. SEK 503. The company has not historically grown via M&A, other than the acquisition of a few third-party game titles, but does not rule out M&A as part of the strategy going forward. 2020 revenue was SEK 1,356m, 10% y/y, following a successful reversal of the negative growth trend in 2019.

Track record of strong growth, 64% CAGR 2010-19

Revenue per quarter and year (SEKm)

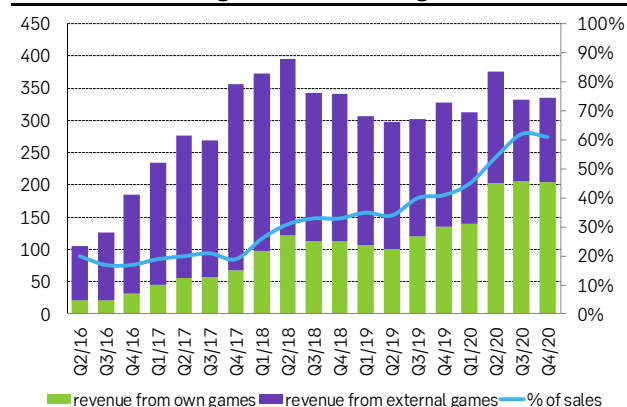


Source: SEB

A closer look at the inner workings and 2019 slump in revenue

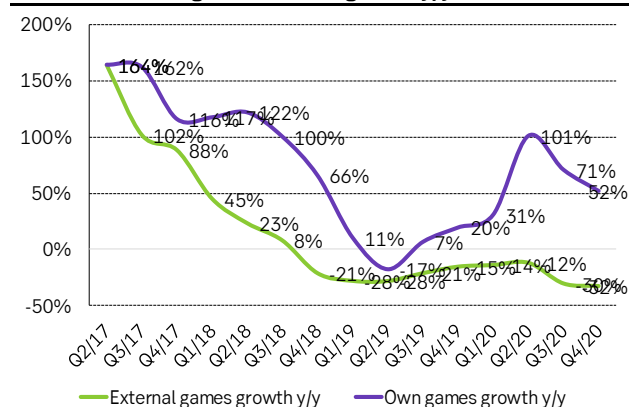
In 2019 the growth trend came to an abrupt stop as revenue from the successful large publishing title, Hidden City, developed and owned by Happy Star Games, started to decline. Given that it at the time accounted for around two-thirds of revenue, growth in the rest of the portfolio was not enough to compensate for this, but following a stabilization at a lower run rate and release of new inhouse game during 2019 and 2020 the negative trend for group revenue has been reversed and as of the most recent quarter external titles accounted for 38% of sales.

Revenue from own games vs external games



Source: SEB, G5

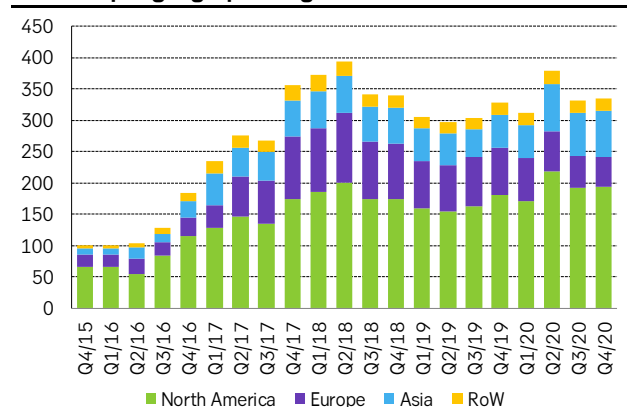
Growth external games vs own games y/y



Source: SEB, G5

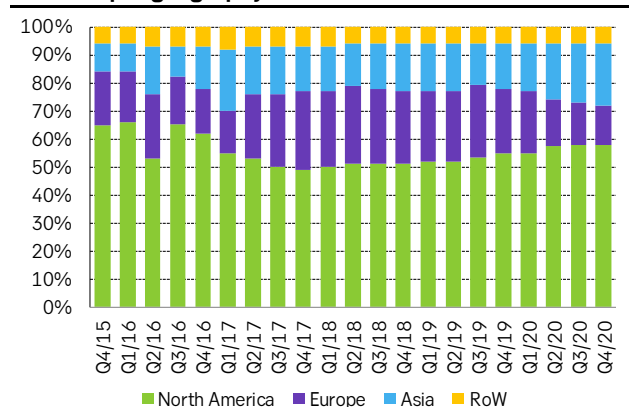
The most important end market for G5 is North America which has accounted for 58% of revenue in Q3 2020 and has been a key market since inception. Asia is the second largest region for G5, at around 20% of group revenue, which can be contrasted with the region accounting for c. 50% of global gaming revenue. Japan and South Korea are key markets in the region.

Revenue per geographic segment



Source: SEB

Revenue per geography as % of total

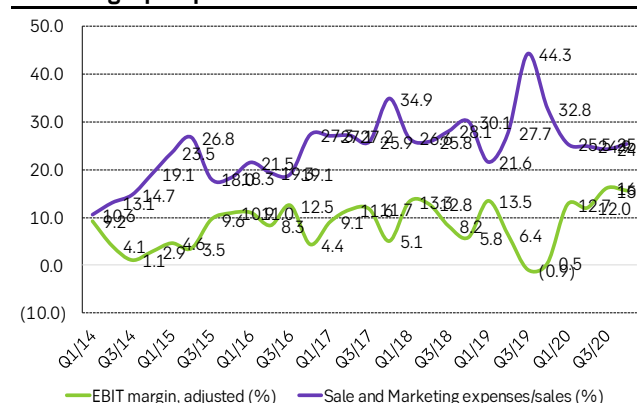


Source: SEB

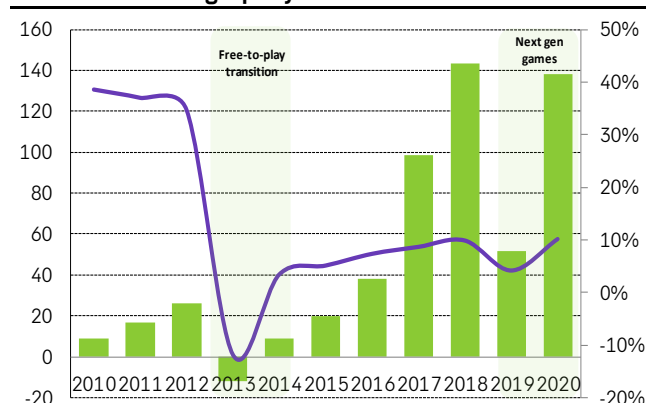
Earnings and cost structure, UAC spend drive volatility

Management has not guided on profitability, and we note that the EBIT margin has been volatile historically. From a longer term perspective the volatility has been affected by structural changes in the business model, i.e. the transition to free to play and from the increasing share of own game revenue, but also in the short term as a result of how aggressively management pursues growth via user acquisition costs, which typically has an inverse relationship with profitability.

The accumulated EBIT margin from 2015 to Q4 2020 is 9.0%, and to illustrate the short-term volatility, as recently as in Q4 2019 the EBIT margin was 0.5% and for the most recent quarter reported, Q4 2020, it was 16%. We believe that earnings volatility is inherent to the business model and will at least to some degree remain. Due to the use of user acquisition spend to drive growth, the launch of new games will temporarily burden profitability as the ratio may be above 100% of revenue in the ramp up phase. Moreover, user acquisition spend may also follow seasonal and in-game campaign patterns where there may be large variations quarter over quarter that may be difficult to predict. With a broader game's portfolio stability can however increase as the launch of one or a handful of new games or campaigns does not meaningfully alter the profile of the whole portfolio.

EBIT margin per quarter

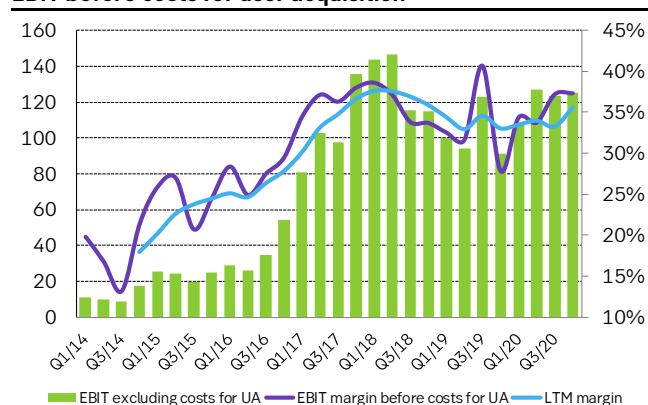
Source: SEB, G5

EBIT and EBIT margin per year

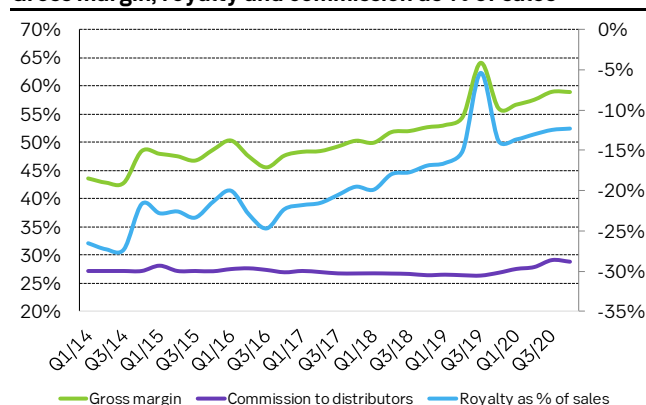
Source: SEB, G5

G5 management at times highlight the metric EBIT before costs for user acquisition. Although it may appear unorthodox to adjust for a line item that is fundamental for future growth, it is an interesting KPI that gives an indication of underlying or clean profitability of the company i.e. how profitable the company is in relation to the fixed costs and COGS which is more static and less affected by the growth strategy. G5 usually discloses user acquisition cost in its reporting separately. In the P&L it is included in the broader line item Sales and Marketing expenses, which in 10

for customer acquisition took a great leap upwards over 2015-17 supported by revenue volume, and following a decline during 2018-19, it has started to strengthen again in 2020, which in our view appears to be due to better gross margins where the higher share of own game revenue results in lower outflow in royalty. Given that most distributors take 30% commission the gross margin cap is around 70% unless there is a change in pricing terms among the distributors.

EBIT before costs for user acquisition

Source: SEB

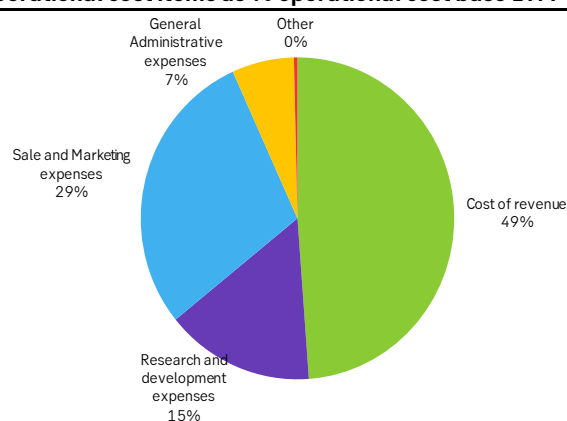
Gross margin, royalty and commission as % of sales

Source: SEB

Aside from customer acquisition costs, as a technology-driven company, one of G5's main cost drivers is employee salaries. Some 600 of the 700 employees are game developers and are at the heart of operations. How personnel costs are reported is not fully straightforward as the company reports P&L costs by function (US GAAP) and a large part of the actual cost is capitalized as it relates to game development, which is later amortized when a game has been released.

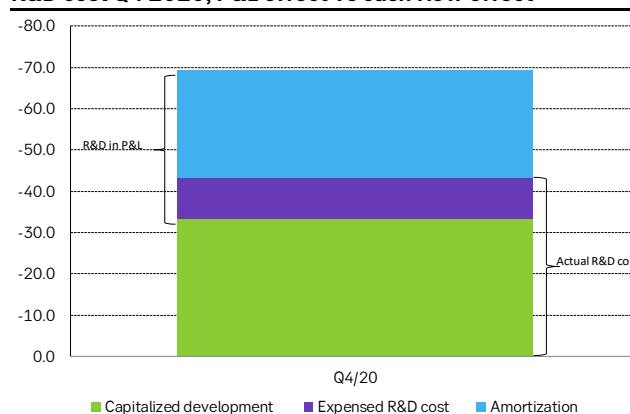
Based on the reported numbers for the last 12 months, 16% of the operational costs are in Research and Development, which in this case include the live-ops cost, costs related to the computer software and associated infrastructure and game related amortization, but given that the company capitalized more than it amortized the true cash cost is slightly higher.

Operational cost items as % operational cost base LTM



Source: SEB, G5

R&D cost Q4 2020, P&L effect vs cash flow effect



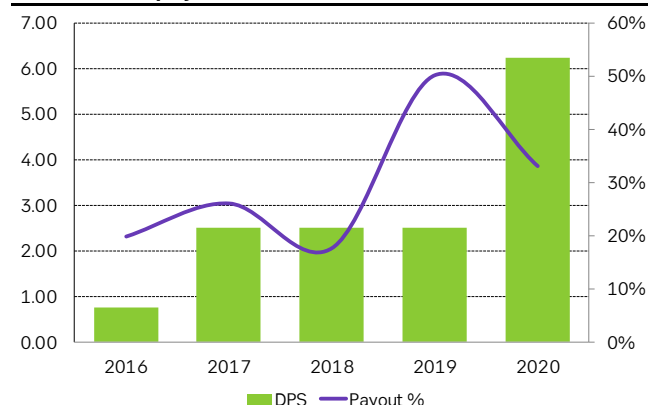
Source: SEB, G5

General Administrative Expenses are related to central and corporate functions and can in our view be regarded as a semi-fixed cost. As the company grows it will likely need to occasionally increase investments in corporate functions but overall the line item should be outpaced by revenue growth if the business is doing well, given its underlying scalability.

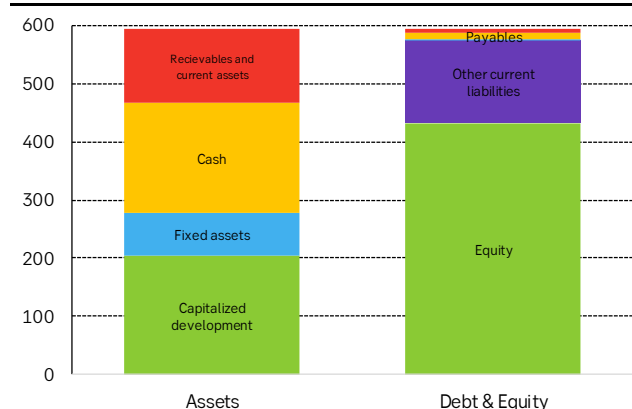
Debt free balance sheet and high cash conversion

The company is free from long-term interest-bearing debt and a considerable part of the asset side of the balance sheet is cash, amounting to around SEK 190m or c. 30% of the balance sheet. The second largest item relates to capitalized development, which currently is c. SEK 200m. G5 Entertainment has rewarded shareholders with dividends in the past four years. Given the uncertainty around profitability in the short term, as affected by user acquisition and possibility of non-organic growth opportunities, the company has not made a commitment on dividends or pay-outs, but the pay-out has ranged between 0% and 50% in the past four years. For 2020 the company will distribute SEK 6.25 per share which is highest yet and corresponds to a dividend yield of c. 1.2% on the current price.

Strong financial position leaves room for distributions or M&A

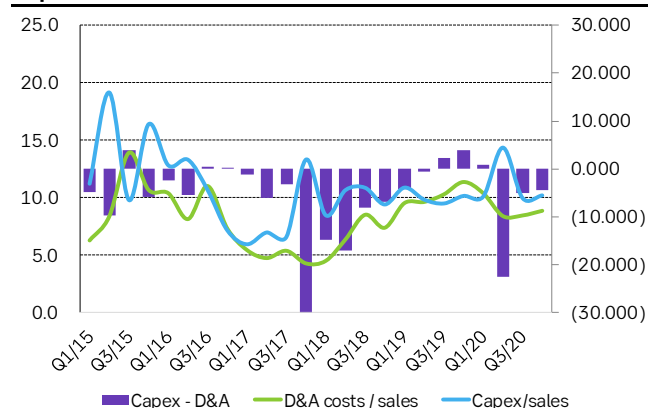
Dividend and payout ratio as % of EPS

Source: SEB, G5

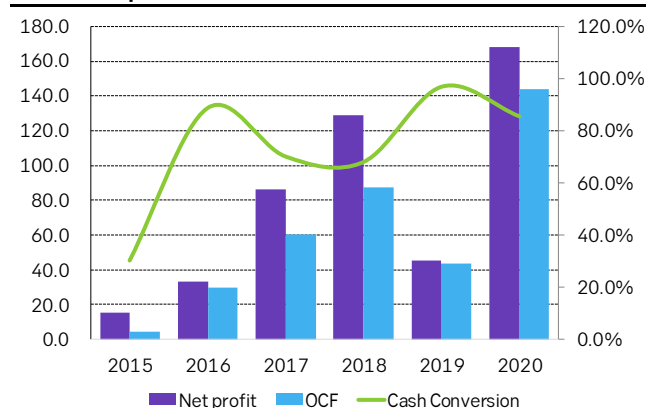
Balance sheet overview

Source: SEB, G5

Capex in relation to sales has averaged 10-11% and mainly relates to development costs i.e. development of new games, but sometimes the company acquires games from third parties, which is also reported as intangible capex. Given that billing is made from, and IP is owned by, the Maltese subsidiary, the corporate tax rate is relatively low and averaged 14.2% between 2015 and 2019. The relatively low capital investment need and low corporate tax rate facilitate high cash conversion and cash generation for G5; operational cash flow vs net profit averaged 71% for 2015-19.

Capex and D&A as % of sales and net effect on EBIT

Source: SEB

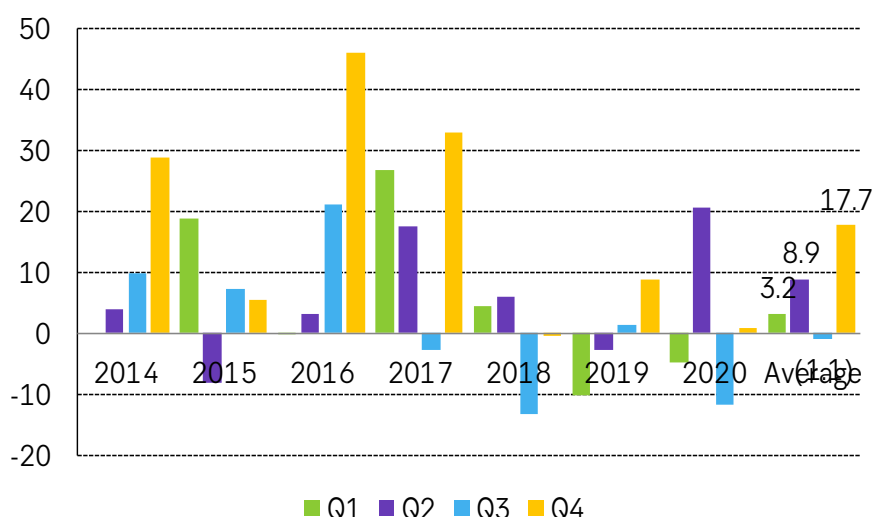
OCF vs net profit

Source: SEB

Historical seasonality and recent events

Non-cyclical in nature, competes for consumers spare time

We see the gaming industry as relatively decoupled from the economic cycle, at least in the way that consumer staples are versus other industries that see larger swings over the up and down-turns. The cost of games is low compared with other forms of leisure such as restaurant visits, the cinema, concerts and sports & outdoor activities. Seasonality over the year usually follows people's behavioural patterns, with q/q uptick during the winter half of the year (northern hemisphere), and weaker performance during the summer when people spend more time outdoors. The largest sequential growth is often seen in Q4 with Q3 being the weakest.

Revenue seasonality, Q/Q growth

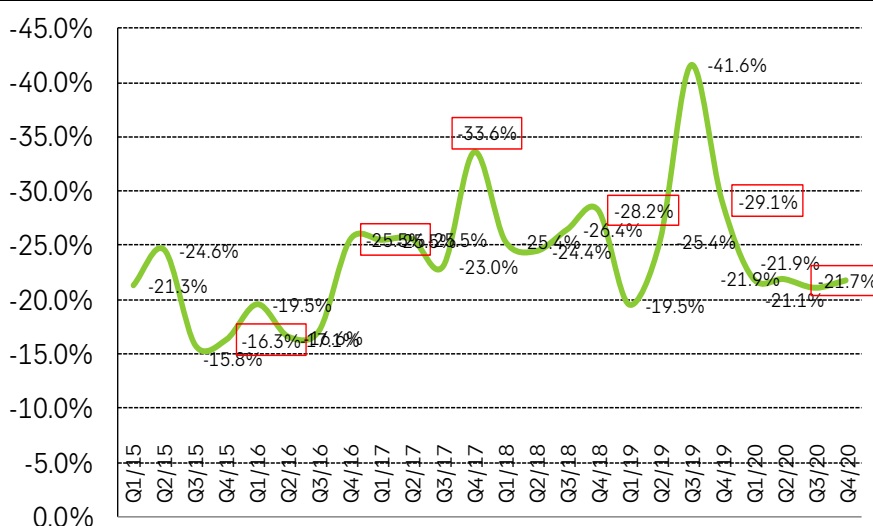
Source: SEB, G5

Q4 is usually the strongest quarter from a revenue perspective

User acquisition spend often largest in Q4 which also affects profitability

Revenue volumes have some effect on earnings seasonality, but the main variable is the user acquisition spending. Looking historically, G5 usually invests the most in user acquisition in Q4, making most of the opportunity that arises when people have more gaming and screen time. As we understand it this is the common pattern for the industry. At times the company diverts from this seasonality at management's discretion, for example to support new releases or as in Q3 2019 when the company ramped up user acquisition investment in Hidden City. We also note that user acquisition cost in Q4 2020 was relatively low compared to history, which management explain also stems from structurally higher efficiency in the UA operations.

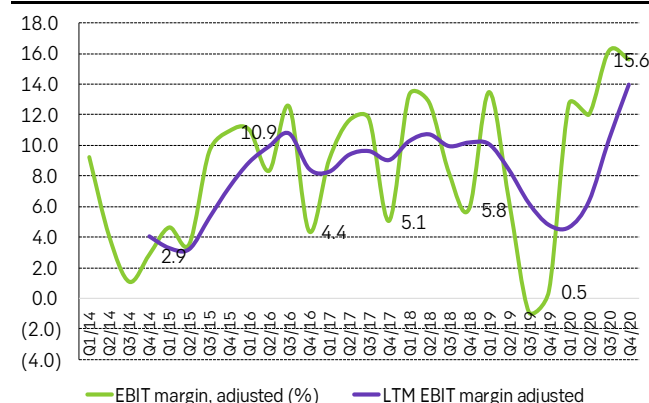
User acquisition spend not as clear seasonality

User acquisition cost seasonality

Source: SEB, G5

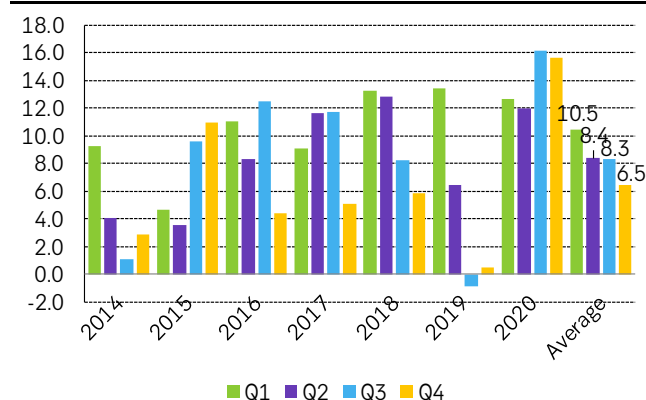
The company rarely guides on user acquisition spend, given that it is to a large extent data-driven i.e. dependent on the ROI and prevailing market trends, where good returns could trigger more investments and vice versa. Visibility is thus low also for management and we recognize the difficulty in accurately predicting profitability in the short term. Based on the historical average, the pattern is that the margin is strongest at the beginning of the year and the weakest in Q4. Although the average points to a clear seasonal trend for profitability, looking at the individual years, it varies to a high degree.

EBIT adj. margin per quarter and LTM



Source: SEB, G5

EBIT adj. margin per quarter and average



Source: SEB, G5

Comments regarding start to 2021

At the Q4 2020 earnings call, management commented that with the continued expansion of the portfolio, now 13 next-gen games, the company is entering 2021 with good top-line momentum and expect mix to continue to shift to the own portfolio and six new games is in the pipeline for 2021. With the continued expansion of the portfolio it anticipates a higher gross margin and higher EBIT margin from operational leverage. January revenue growth was 24% y/y in USD and EBIT margin around 20%.

Apple to remove IDFA

A recent development that could impact G5 and the industry negatively to some degree is that Apple will remove its identifier for advertisers (IDFA) in connection with a privacy terms update enhancing privacy and options for the user. It was earlier scheduled to come in force with iOS 14 which went live in October but now is expected to be implemented early in 2021. A consequence is that targeted marketing in iOS devices will not be possible as before, given that the identifier had provided advertisers with information about the user for a certain device. A possible consequence could be worse ROI on marketing or loss of revenue due to not reaching the right audience. A mitigating factor could be that prices for advertising come down, balancing out the impact on ROI.

Forecasts

Summary of financial forecasts

We expect a combination of double-digit growth and margin expansion

We estimate EPS to almost double from 2020-2023 at SEK 35

We view G5 as primarily a growth case and argue that the performance in the first nine months of 2020 shows that it is back on track following the challenging 2019, supported by its portfolio of new games and operational changes. We see scope for the company to combine double-digit organic growth with improving profitability, supported by the scalable business model and revenue mix shift.

The company has not issued any long-term financial targets, which obviously leaves some uncertainty in estimates. However, we do not expect that performance over 2021-23 will deviate materially from the path established in 2020. We model a continued decline in revenue from external games of -10% CAGR, and for own games to continue a strong growth trajectory at a CAGR of 22%. To fuel the growth, we model user acquisition cost to be c. 25% of sales, and we expect own games to grow to around 75% of the mix in 2023. We expect that active users (MAU), as well as payers (MUP) will be main drivers for growth but also that monetization will improve (MAGRPPU).

On the group level, we forecast G5 to generate SEK 1.8bn in revenues by 2023, corresponding to an organic CAGR of 12%. We model the EBITDA margin to expand from 23% in 2020 to 28.5% in 2023 supported by the mix shift, with EPS almost doubling during the forecast period from SEK 19 to SEK 35.

Short P&L

(SEKm)	Q1/20	Q2/20	Q3/20	Q4/20	Q1/21E	Q2/21E	Q3/21E	Q4/21E	2019	2020	2021E	2022E	2023E
Revenue	312.0	376.3	332.4	335.3	337.9	354.5	359.5	375.3	1,233.0	1,356.0	1,427.2	1,622.4	1,821.0
EBITDA	71.2	76.4	81.8	82.0	96.5	98.9	94.7	90.7	177.7	311.4	380.8	440.2	518.8
EBIT adjusted for UAC	107.2	127.0	123.7	126.6	139.5	147.3	150.3	163.3	407.8	483.2	600.4	695.6	806.9
EBIT	38.8	44.8	53.7	52.3	65.9	66.1	60.7	54.4	51.8	189.5	247.2	278.2	336.7
EPS	3.7	4.4	5.6	5.3	6.8	6.8	6.3	5.6	5.0	19.0	25.6	28.8	34.9
Revenue growth	1.9%	26.6%	10.2%	2.2%	8.3%	-5.8%	8.1%	11.9%	-15.0%	10.0%	5.2%	13.7%	12.2%
EBITDA margin	22.8%	20.3%	24.6%	24.5%	28.6%	27.9%	26.4%	24.2%	14.4%	23.0%	26.7%	27.1%	28.5%
EBIT adjusted for UAC margin	34.4%	33.8%	37.2%	37.8%	41.3%	41.6%	41.8%	43.5%	33.1%	35.6%	42.1%	42.9%	44.3%
EBIT margin	12.4%	11.9%	16.1%	15.6%	19.5%	18.7%	16.9%	14.5%	4.2%	14.0%	17.3%	17.2%	18.5%
UAC	-68.4	-82.3	-70.0	-74.3	-73.6	-81.2	-89.6	-108.9	-356.0	-293.6	-353.2	-417.4	-470.2
UAC as % of sales	-21.9%	-21.9%	-21.1%	-22.2%	-21.8%	-22.9%	-24.9%	-29.0%	-28.9%	-21.7%	-24.8%	-25.7%	-25.8%
Royalty	-42.5	-48.9	-41.3	-41.2	-33.8	-34.9	-34.5	-30.0	-156.6	-173.9	-133.2	-130.3	-128.0
Royalty as % of sales	-13.6%	-13.0%	-12.4%	-12.3%	-10.0%	-9.9%	-9.6%	-8.0%	-12.7%	-12.8%	-9.3%	-8.0%	-7.0%

Source: SEB

Operational KPIs

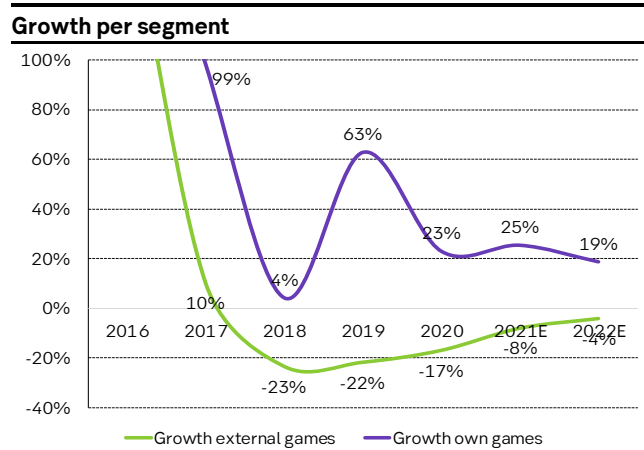
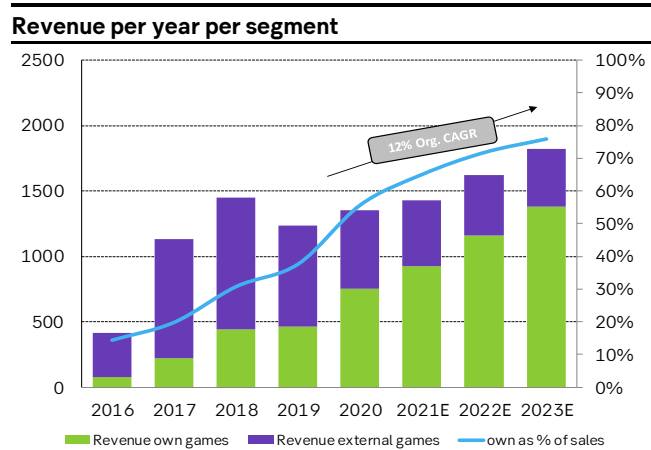
(SEKm)	Q1/20	Q2/20	Q3/20	Q4/20	Q1/21E	Q2/21E	Q3/21E	Q4/21E	2019	2020	2021E	2022E	2023E
Revenue from own games	140.4	203.2	206.1	204.6	211.2	226.9	236.3	253.3	463.4	754.3	927.8	1,163.3	1,381.2
growth y/y (%)	31.0%	101.0%	70.9%	52.1%	50.4%	11.6%	14.7%	23.9%	4.2%	62.8%	23.0%	25.4%	18.7%
Revenue from external games	171.6	173.1	126.3	130.8	126.7	127.6	123.1	122.0	769.7	601.8	499.4	459.1	439.9
growth y/y (%)	-13.8%	-11.8%	-30.2%	-32.4%	-26.1%	-26.3%	-2.5%	-6.7%	-23.5%	-21.8%	-17.0%	-8.1%	-4.2%
% of revenue from own games	45.0%	54.0%	62.0%	61.0%	62.5%	64.0%	65.8%	67.5%	37.6%	55.6%	65.0%	71.7%	75.8%
Monthly Active Users	6.3	7.1	6.8	7.4	7.7	8.0	7.9	8.2	5.8	7.4	8.2	8.9	9.6
Monthly Unique Payers	213.3	227.6	212.4	217.8	225.5	235.7	238.0	247.6	215.7	217.8	247.6	273.5	302.2
Monthly Avg. Gross Rev. Per Paying User	50.7	57.4	60.2	60.3	60.9	61.1	61.4	61.6	47.2	57.2	61.3	62.2	63.2
Monthly Active Users y/y	-8.7%	12.7%	9.7%	27.6%	21.5%	12.1%	16.4%	10.7%	-29.3%	27.6%	10.7%	8.6%	8.2%
Monthly Unique Payers y/y	-14.3%	2.7%	-4.6%	1.0%	5.7%	3.6%	12.1%	13.7%	-21.7%	1.0%	13.7%	10.5%	10.5%
Monthly Avg. Gross Rev. Per Paying User	14.4%	23.4%	31.4%	15.3%	20.1%	6.5%	2.0%	2.2%	5.3%	21.0%	7.2%	1.6%	1.6%

Source: SEB

Primarily a growth company

At a transition point, own games to take dominance

Following a period of rebalancing of the portfolio over 2019 we see scope for G5 to maintain its recovered growth trajectory, driven by change in mix where high growth of own games will predominate. We estimate that at the end of 2023 the share of revenue from own games will account for around 75% of total revenue supported by faster-than-market growth with a CAGR of 22% versus -10% CAGR for the external games and 12% organic CAGR for the group.



We expect G5 to be able to drive growth broadly, through MAU/MUP/MAGRPPU

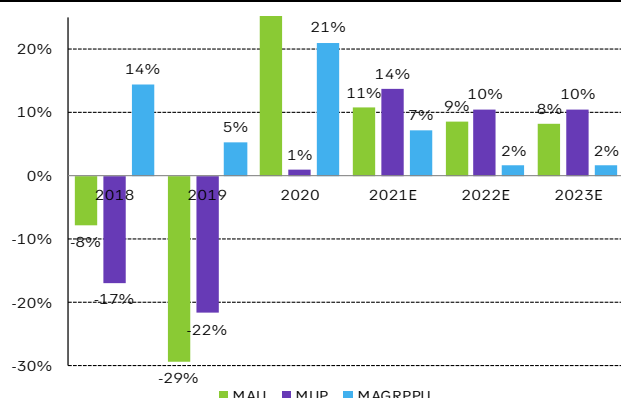
Potential to increase both monetization and user base

We expect that the company will be able to fuel growth mainly via monthly active user base growth (MAU) and monthly paying users (MUP), but also that improved monetization (MAGRPPU) will be a supporting factor.

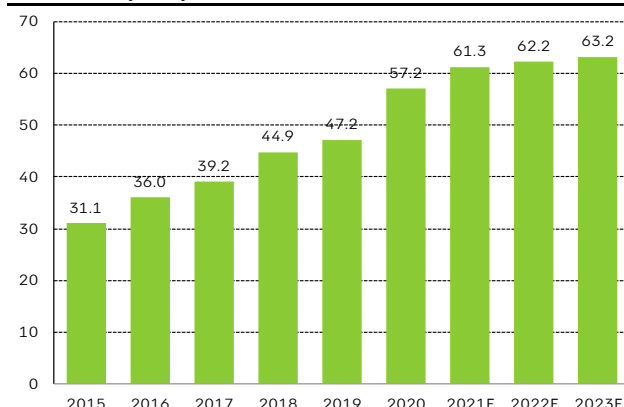
There were 7.4m Monthly Unique Users in the last reported quarter of Q4 2020 and with Monthly Unique Payers at 218,000 the conversion rate is 2.9%. This is lower than the average over 2015-19 of 3.6% and in our view likely an effect of ongoing mix shift in the portfolio with new games ramping up having a higher share of non-paying players than the rest of the portfolio. We model conversion to remain close to 3.0%, although recognize that high growth for the new games could dilute the ratio as non-paying users grow faster than paying users in the short term.

We see scope for MAGRPPU to continue to increase too, as the company refine and optimize monetization in the older portfolio, by market trend of increased acceptance for mobile payments and microtransactions overall and also support from genre-migration to Match-3 and Mashups which as we understand it have higher monetization per paying user than Hidden Objects, also with more meta layers and customization options in the new generation of G5 games ought to be helpful.

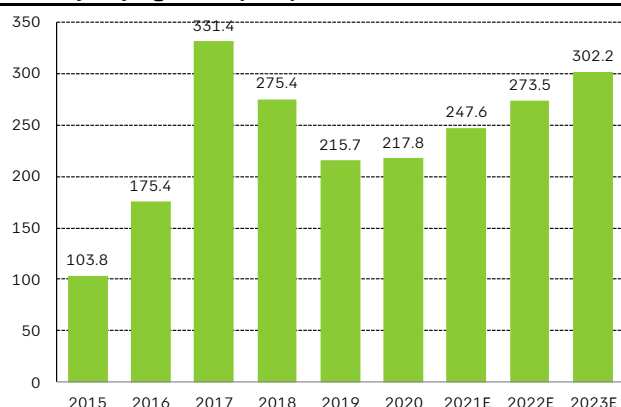
We model our revenue forecasts for G5 on these reported KPIs, Monthly Unique Payers (MUP) and Monthly Average Revenue per Unique Payer (MARPPU). Annual revenue thus becomes a function of $MAU \times Conversion = MUP \times MAGRPPU \times 12 \text{ months} \times USD/SEK$. While the company has revenue in other currencies, an assumption of 100% USD conversion results in a deviation no larger than 3% over the past three years.

Growth per year per revenue driver

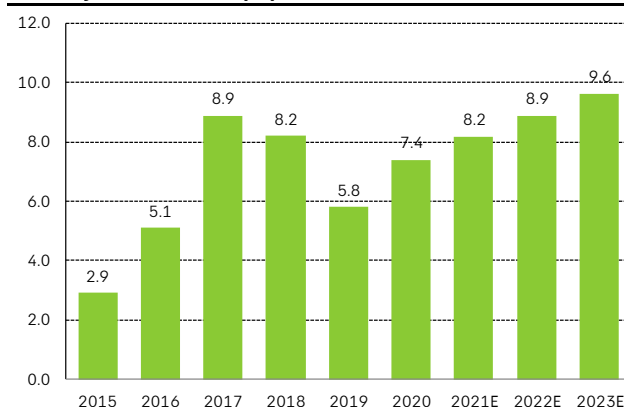
Source: SEB

MAGRPPU (USD)

Source: SEB

Monthly Paying Users (000)

Source: SEB

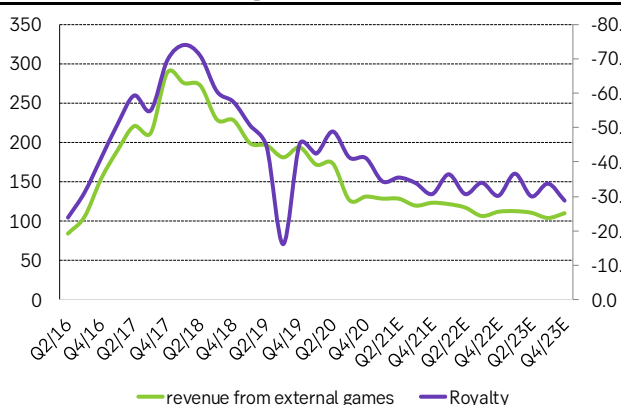
Monthly Active Users (m)

Source: SEB

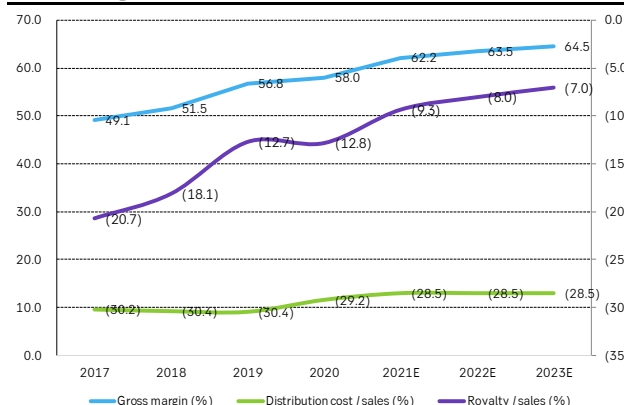
Still room for profitability improvements

Mix shift to continue to be supportive for margin expansion

Profitability has improved in G5 over the past year, and we expect this trend to continue as the company sees gross margin support from the mix with more revenue from own games, which according to our estimates should be set to fuel 650bps gross margin expansion by 2023 versus 2020, from 58% to 64.5%.

Revenue from external games and royalty SEKm

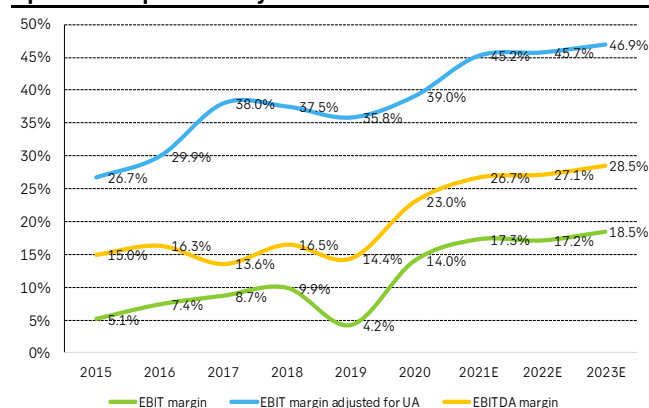
Source: SEB

Gross margin and cost of sales items

Source: SEB

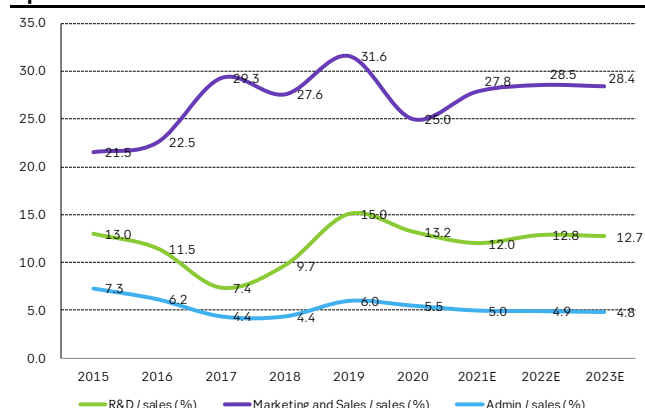
Moreover, we expect that revenue growth may continue to outpace fixed costs, improving profitability. We expect the EBIT margin ex UAC to increase by about 8pp from 2020 to 2023, from 39% to 47.0%. The big swing factor for group profitability will naturally be how user acquisition spending will be allocated in the future. As we assume the company will pursue growth and manage to grow at a double-digit organic pace. We also assume the marketing-to-sales ratio to be high, at around 28% for the group, and for UAC-to-sales to be around 25%, which is slightly higher than what the company ended 2020 with (25% & 22%).

Operational profitability



Source: SEB

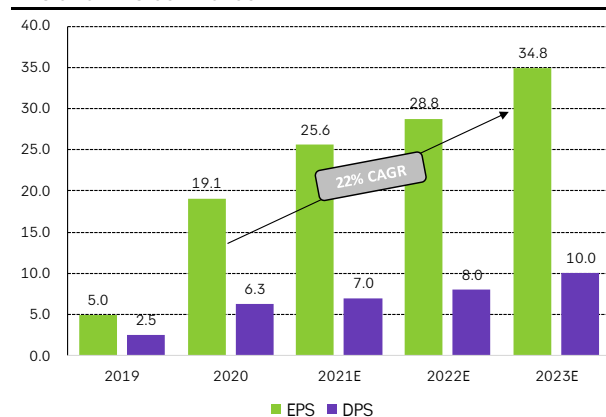
Operational costs items in relation to sales



Source: SEB

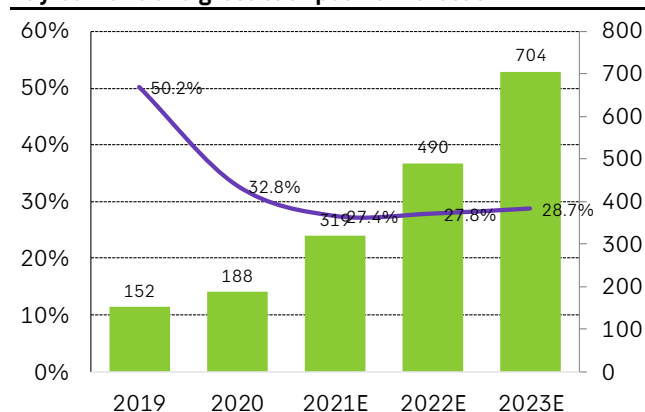
We assume a 10% corporate tax rate, and negligible financial cost/income. Supported by double-digit growth and improved profitability, we expect EPS CAGR of c. 22%, almost doubling from SEK 19 in 2020 to SEK 35 in 2023E. We model a dividend payout ratio between 25% and 30% and, on a share price of around SEK 500, the dividend yield on our estimated DPS 1-2% 2020-23E and company will still be able to accumulate cash which can be used for M&A or extraordinary one-time distributions.

EPS and DPS estimates



Source: SEB

Pay-out ratio and gross cash position forecast



Source: SEB

Main forecasting risks

The lack of targets and guidance creates uncertainty and we have made many assumptions about the strategy, for example the UA spending. Moreover, the company is dependent on the popularity of its games in a highly competitive market and that its user acquisition models are correct in predicting user lifetime values. Failure in execution would mean downside to our estimates. With its strong balance sheet and cash flow generation we think it is possible that G5 may make acquisitions, which would bring upside to our estimates.

Interim financials

(SEKm)	Q1/20	Q2/20	Q3/20	Q4/20	Q1/21E	Q2/21E	Q3/21E	Q4/21E	2019	2020	2021E	2022E	2023E
Revenues	312.0	376.3	332.4	335.3	337.9	354.5	359.5	375.3	1,233.0	1,356.0	1,427.2	1,622.4	1,821.0
Cost of revenue	-135.3	-159.9	-136.6	-137.9	-130.1	-136.0	-137.0	-137.0	-531.9	-569.7	-540.0	-592.7	-647.0
of which distributor cost	-92.8	-111.1	-95.2	-96.8	-96.3	-101.0	-102.4	-107.0	-375.3	-395.9	-406.7	-462.4	-519.0
of which royalty	-42.5	-48.9	-41.3	-41.2	-33.8	-34.9	-34.5	-30.0	-156.6	-173.9	-133.2	-130.3	-128.0
Gross profit	176.7	216.4	195.9	197.4	207.8	218.6	222.5	238.3	700.0	786.3	887.2	1,029.7	1,174.0
R&D cost	-49.4	-50.7	-39.2	-39.5	-40.5	-42.5	-43.1	-45.0	-185.2	-178.9	-171.3	-208.2	-231.7
Sales & Marketing	-79.4	-93.8	-80.7	-85.1	-84.5	-92.2	-100.6	-120.1	-389.5	-339.0	-397.4	-463.2	-517.5
Admin	-19.1	-17.8	-20.0	-17.8	-16.9	-17.7	-18.0	-18.8	-74.1	-74.7	-71.4	-80.1	-88.1
Other	10.0	-9.3	-2.2	-2.7	0.0	0.0	0.0	0.0	-0.5	-4.2	0.0	0.0	0.0
Total opex	-137.9	-171.6	-142.2	-145.1	-141.9	-152.4	-161.8	-183.9	-649.3	-596.8	-640.0	-751.5	-837.3
of which non-recurring items	0.0	-0.4	0.0	0.0	0.0	0.0	0.0	0.0	-7.5	-0.4	0.0	0.0	0.0
EBIT	38.8	44.8	53.7	52.3	65.9	66.1	60.7	54.4	51.8	189.5	247.2	278.2	336.7
Adjusted EBIT	38.8	45.2	53.7	52.3	65.9	66.1	60.7	54.4	59.3	190.0	247.2	278.2	336.7
Financial items	-0.1	-0.2	-0.3	-0.1	-0.1	-0.1	-0.1	-0.1	-0.1	-0.7	-0.5	-0.5	-0.5
Pretax profit	38.7	44.6	53.4	52.2	65.8	66.0	60.6	54.3	51.7	188.8	246.6	277.7	336.2
Taxes	-5.2	-5.3	-4.9	-6.2	-6.6	-6.6	-6.1	-5.4	-6.7	-21.6	-24.7	-27.8	-33.6
Net profit	33.5	39.3	48.5	46.0	59.2	59.4	54.6	48.9	45.1	167.3	222.0	249.9	302.6
Adjusted net profit	34.8	40.5	48.0	47.0	59.2	59.4	54.6	48.9	53.3	170.3	222.0	249.9	302.6
EPS reported diluted	3.7	4.4	5.6	5.3	6.8	6.8	6.3	5.6	5.0	19.1	25.6	28.8	34.8
EPS adjusted for NRI diluted	3.9	4.6	5.5	5.4	6.8	6.8	6.3	5.6	5.9	19.1	25.6	28.8	34.8
Revenue growth (%)	1.9	26.6	10.2	2.2	8.3	-5.8	8.1	11.9	-15.0	10.0	5.2	13.7	12.2
..whereof est. organic	-2.2	25.9	17.1	9.7	17.7	3.0	10.6	11.9	-21.3	12.4	10.5	13.7	12.2
..whereof est. FX	4.1	0.7	-6.8	-7.5	-9.4	-8.8	-2.5	0.0	6.3	-2.5	-5.2	0.0	0.0
EBITDA	71	76	82	82	96	99	95	91	178	311	381	440	519
Adjusted EBITDA	71	76	82	82	96	99	95	91	185	313	381	440	519
Depreciation & Amortization	-32	-32	-28	-30	-31	-33	-34	-36	-126	-122	-134	-162	-182
Revenue growth, q/q (%)	-4.9	20.6	-11.7	0.9	0.8	4.9	1.4	4.4	-25.8	75.2	22.0	15.6	17.9
EBITDA growth (%)	3.1	61.4	188.7	147.1	34.1	29.5	15.8	10.5	-24.1	68.4	21.8	15.6	17.9
EBITDA growth, adjusted (%)	3.1	61.4	188.7	147.1	34.1	29.5	15.8	10.5	-24.1	68.4	21.8	15.6	17.9
EBIT growth (%)	-2.7	139.5	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	-63.9	265.8	29.9	12.6	21.0
EBIT growth, adjusted (%)	-6.0	136.3	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	-59.9	220.5	29.6	12.6	21.0
EBITDA margin (%)	22.8	20.3	24.6	24.5	28.6	27.9	26.4	24.2	14.4	23.0	26.7	27.1	28.5
EBITDA margin, adjusted (%)	22.8	20.3	24.6	24.5	28.6	27.9	26.4	24.2	15.0	23.0	26.7	27.1	28.5
EBIT margin (%)	12.4	11.9	16.1	15.6	19.5	18.7	16.9	14.5	4.2	14.0	17.3	17.2	18.5
EBIT margin, adjusted (%)	12.4	12.0	16.1	15.6	19.5	18.7	16.9	14.5	4.8	14.0	17.3	17.2	18.5
Cost of revenue growth (%)	-6.0	18.2	26.0	-4.5	-3.8	-15.0	0.3	-0.7	-24.3	7.1	-5.2	9.8	9.2
Distribution cost growth (%)	-0.5	22.4	3.3	-2.4	3.8	-9.0	7.6	10.6	-14.8	5.5	2.7	13.7	12.2
Royalty growth (%)	-16.1	9.8	155.1	-9.1	-20.5	-28.5	-16.5	-27.0	-40.4	11.0	-23.4	-2.2	-1.7
R&D expenses growth (%)	22.5	16.4	-16.5	-27.3	-17.9	-16.1	9.9	13.9	31.8	-3.4	-4.3	21.6	11.3
Sales & Marketing cost growth (%)	20.1	14.0	-39.6	-20.9	6.4	-1.7	24.7	41.1	-2.6	-13.0	17.2	16.5	11.7
Admin cost growth	15.9	-2.1	12.8	-17.9	-11.5	-0.5	-10.3	5.4	16.7	0.8	-4.5	12.2	10.0
D&A cost growth (%)	11.1	10.4	-9.4	-20.3	-5.5	3.8	21.0	22.0	30.9	-3.3	9.7	21.1	12.5
Total opex and D&A growth (%)	2.6	19.0	-8.4	-14.8	-0.1	-13.0	7.2	13.4	-9.6	-1.2	1.2	13.9	10.4
Direct costs / revenues (%)	-43.4	-42.5	-41.1	-41.1	-38.5	-38.4	-38.1	-36.5	-43.1	-42.0	-37.8	-36.5	-35.5
Distribution cost / sales (%)	-29.7	-29.5	-28.6	-28.9	-28.5	-28.5	-28.5	-28.5	-30.4	-29.2	-28.5	-28.5	-28.5
Royalty / sales (%)	-13.6	-13.0	-12.4	-12.3	-10.0	-9.9	-9.6	-8.0	-12.7	-12.8	-9.3	-8.0	-7.0
R&D / revenues (%)	-15.8	-13.5	-11.8	-11.8	-12.0	-12.0	-12.0	-12.0	-15.0	-13.2	-12.0	-12.8	-12.7
Sales and Marketing / revenues (%)	-25.5	-24.9	-24.3	-25.4	-25.0	-26.0	-28.0	-32.0	-31.6	-25.0	-27.8	-28.5	-28.4
Admin / revenues (%)	-6.1	-4.7	-6.0	-5.3	-5.0	-5.0	-5.0	-5.0	-6.0	-5.5	-5.0	-4.9	-4.8
D&A cost / revenues (%)	-10.4	-8.4	-8.5	-8.9	-9.1	-9.3	-9.5	-9.7	-10.2	-9.0	-9.4	-10.0	-10.0
Total opex and D&A costs / revenues (%)	-98.0	-96.5	-92.3	-93.3	-89.6	-90.6	-92.6	-95.2	-106.0	-95.0	-92.0	-92.8	-91.5
Effective tax rate (%)	-13.3	-11.9	-9.1	-11.9	-10.0	-10.0	-10.0	-10.0	-12.9	-11.4	-10.0	-10.0	-10.0

Source: SEB

Market Overview

World's largest entertainment industry

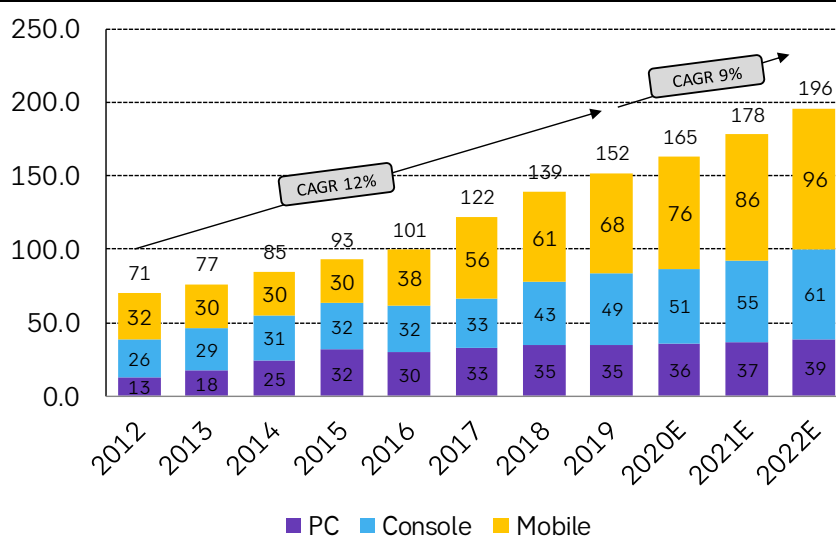
Technology and demographic trends support the industry

Many structural drivers fuelling growth

Online games are becoming accessible to an increasing number of people and are becoming more acceptable as a hobby and as a way to socialize: over the past decade, they have taken a place in the mainstream entertainment market. Growth is and has been supported by several drivers, for example a supportive demographic trend where the teens from the 1990s (now in their forties) are to a high degree still engaged in games and younger generations constitute new supply where today female gaming is a large part of the market.

Technological advancement has aided the industry. Availability and affordability have been improved via increasing smartphone penetration and cheaper computer hardware, supporting uptake in both developed and developing economies, and the formation of social clusters around gaming via social networks. Evolving digital marketing tools and product development have been enablers and clear enhancers of the value proposition with the emergence for example of Esport and large franchises.

Global games industry revenue, selected segments, USDbn



Game industry has grown at a CAGR of 12% since 2012

Source: SEB, New Zoo global games report 2019 & 2020. OBS, Newzoo revise estimates every quarter and some may have changed.

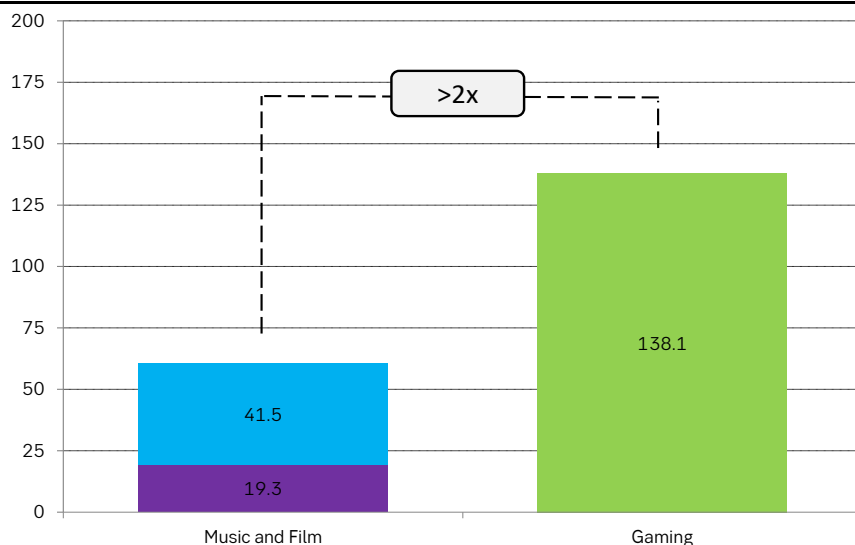
Global market size over USD 150bn

Revenue CAGR since 2012 has been around 12% and today gaming is the world's largest entertainment industry, with revenues more than twice that of the music and film industry combined at roughly USD 140bn in 2018. It is expected to reach around USD 200bn by 2022-23. Out of the different gaming segments, turnover is the largest in mobile accounting for around 50% of the market.

The fine line between the different entertainment segments is however less of a divide than in previous decades and games, music and film are intertwined in a symbiotic ecosystem. Movies are adapted into games, and sometimes vice versa, movie stars and artist make appearances in games and orchestras both perform and tour game music. One of Netflix's biggest hits in 2020 was the TV series adaption of The Witcher, originally a novel series but made popular via the video games.

Gaming more than twice the size of the Music and Film combined

Gaming compared to Music and Film 2018, USDbn

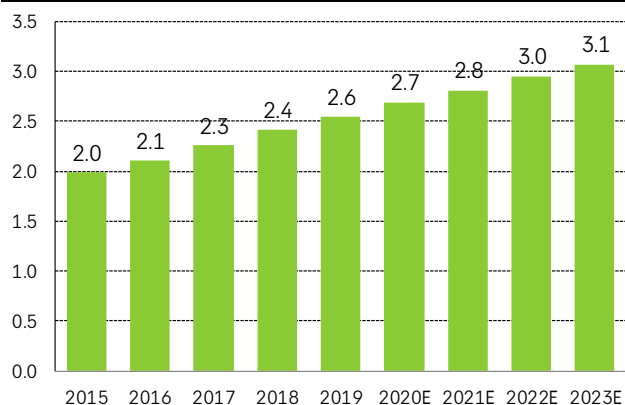


Source: SEB, New Zoo global games report 2019

About one-third of the global population are gamers

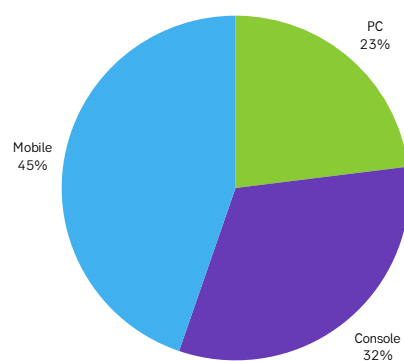
In the past, one needed to first buy a console or a high-end computer to play games; today, a maturing smartphone market and the emergence of low price-point tablets and cheaper computers have made games available to a much wider audience. Newzoo estimate there are 3.5bn smartphone users and around 4.4bn people have access to the internet whether via a phone or PC. This has led to a dramatic increase in gaming and screen time for people of all ages and socioeconomic groups, with an estimated roughly 2.5bn gamers globally, which is expected to increase beyond 3bn in two to three years.

Global gamers, billions



Source: SEB, New Zoo global games report 2020. Definition: Have played in past 6m.

Revenue per platform as % of total



Source: New Zoo global games report 2019

The definition used by Newzoo in this research is that a gamer is someone who has played a game in the past six months, so the number may be higher than what one would intuitively interpret as a gamer. The players are often segmented into different demographics dependent on behaviour, i.e. whether they are playing only a little or if they play a lot. For example, a highly engaged player is defined by Newzoo as someone who spends a minimum of 15 hours a week on games, potentially using the game as a backdrop to “hang out” and socialise or honing skills similar to the practice of other hobbies or sports.

Mobile segment to remain a fast grower

Mobile market expected to grow the fastest, 12% CAGR

The gaming market can be divided into different platforms, primarily presented as PC, Console, Mobile, but can also be broken down into more segments such as separating Tablets from mobile, Browser from PC and VR from console and possibly discussing Cloud/subscription a new category. But in order not to complicate the market analysis more than necessary we focus on the three big overarching categories.

Mobile segment expected to grow the fastest and Asian market is the largest region

The mobile game segment has grown the fastest and is estimated to continue to grow the fastest with growth at a CAGR of 12.2% between 2019 and 2022. PC and console markets are more mature but are nevertheless expected to grow at CAGRs of 3.7% and 7.6% respectively, the console segment supported by the introduction of a new generation PlayStation and Xbox in Q4 2020. The part of the market that is not growing is browser PC games, which have been cannibalized by mobile and tablet games.

Y-o-y growth rates

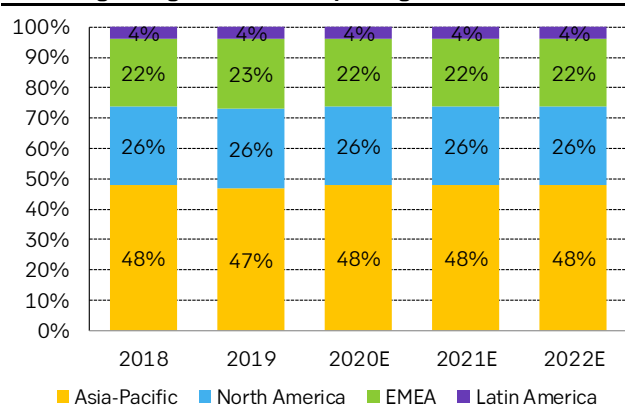
	CAGR	2012-19	2020	2021	2022	CAGR
PC		15.6%	2.9%	2.8%	5.4%	3.7%
Mobile		11.5%	11.8%	13.2%	11.6%	12.2%
Console		9.4%	4.1%	7.8%	10.9%	7.6%
Total		11.6%	8.6%	7.9%	10.1%	8.8%

Source: New Zoo 2019

Looking into the geographic regions, APAC is the largest gaming market with almost 50% of total revenue. The second largest market, according to Newzoo, is the North American market with 26%, followed by EMEA with 22-23% and the Latin American market with 4% is the smallest.

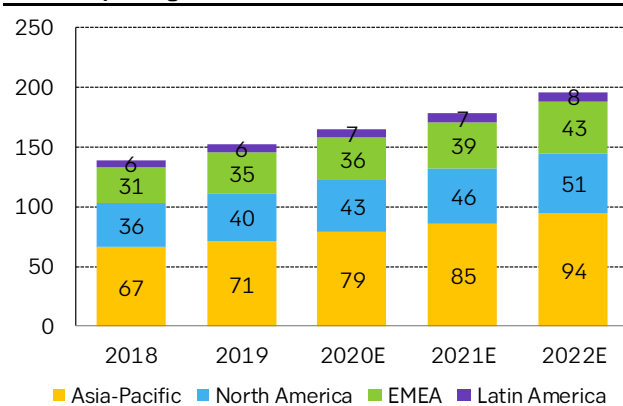
North America and EMEA are the most mature markets, but still far from saturated. Much of the revenue growth in APAC has been driven by mobile gaming.

Share of global games revenue per region



Source: SEB, Newzoo 2019

Revenue per region USDbn



Source: SEB, Newzoo 2019

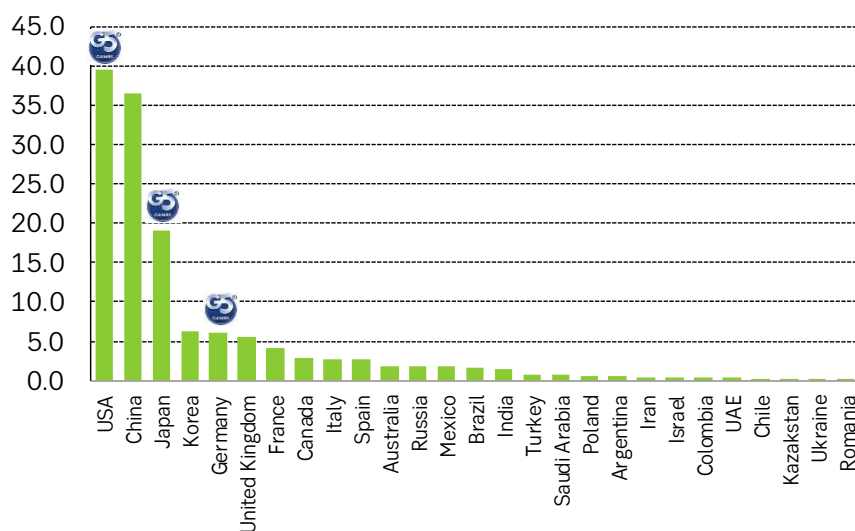
Closer look at key markets Asia and NA

US is the biggest gaming market

The country with the highest gaming revenue is the US, according to Newzoo 2019 games market report, closely followed by China. In the mobile segment, however, China is estimated to be the largest market with an estimated USD 19.4bn of gaming spend from mobile making it the dominant medium. The key markets for G5 are the US and Japan and Germany.

USA, Japan and Korea are key markets for G5, whilst China is not so large yet

Gaming revenue USDbn among selected countries



Source: SEB, Newzoo

APAC countries on the rise supported by big populations

Looking at the mobile footprint worldwide, China is the top country with almost 1bn smartphone users, and with smartphone penetration of about 60% we think it may be expected to continue to grow, also as a gaming market shortly surpassing the US. India is the second largest country in the world measured by population, but smartphone penetration remains lower than in China and the West at around one third of the 1.4bn population and as a gaming market it is still not very big. Japan is estimated to account for 26% of APAC mobile app revenue and Korea 7.4%, compared to 52% stemming from China.

Historically China has been a closed market and dominated by the two largest players, Tencent and NetEase, which act as “gatekeepers to China” where self-publishing is not allowed. Moreover, given that Google Play is now no longer supported in the country, other third-party distributors have to be used for Android.

Mobile footprint

Global Rank	Smartphone data	Population	Online population	Smartphone users	Active smartphones	Smartphone penetration
1	China	1439	908	874	1063	60.8
2	India	1380	649	443	538	32.1
3	United States	331	284	270	308	81.6
4	Indonesia	274	174	159	193	58
5	Brazil	213	152	108	127	50.7
6	Russia	146	120	99	114	67.8
7	Mexico	129	94	69	82	53.6
8	Japan	127	102	67	81	52.9
9	Germany	84	76	65	74	77.6
10	United Kingdom	68	92	53	61	78.4

Source: Newzoo 2019

Global distribution but local preferences**Local gaming preferences a challenge for western developers in Asia**

The preference among consumers in the Asian markets is somewhat different from the Western markets and the markets have completely different top grossing titles. Whereas Candy Crush has been the superstar in western markets over many years, it is not as popular in China. In China a role-playing game called Honor of Kings (or Arena of Valor) from Tencent has been the top grossing game for a long time and most of the top games are RPGs, puzzle games not having the same popularity as in the west.

There are similar local preferences with a handful of strong local RPG titles also in Japan and Korea, although casual and puzzle games have managed to get better traction in these markets than in China.

Game market trends**Lower commission fees from distributors could lift industry****Store wars – coming to mobile too?**

Since the launch of Epic Games store in 2018, with more attractive commission terms for PC developers than on Steam, 12% vs then 30%, tension has risen among digital distributors and commission rates have come under pressure. Steam quickly responded to Epic's attempt to gain market share by introducing tiers, where bigger developers instead pay 25% or 20% on revenue. The big question is if the price pressure on distributors is a trend that will come to mobile. There are indications that this is the case and that price pressure has already begun.

Has happen on PC and may be coming to mobile platforms as well

Google Play for the Android operating system and Appstore for IOS have dominated app distribution over the past years, but with a market share shift in the smartphone market, and iPhone's market share sliding, third party stores have gained ground, which is expected to further increase as Google Play will no longer support Huawei phones against the backdrop of new security policies in the US. In order to promote software developers integrating with the Huawei App Gallery the company is offering discounts. For certain segments such as Education and other non-game apps, the commission will be free for the first 12 months and for games the commission rate will be 15% for 24 months vs the standard 30%.

On another front, a lawsuit between Epic and Apple has made big headlines in the industry. Epic sold in-game currency for its popular game Fortnite to IOS players directly without using the Apple in-app purchase system. This was viewed as a violation by Apple, which removed the game from its store, to which Epic responded with a lawsuit claiming that Apple is taking advantage of a monopolistic position where the 30% commission is too steep. The court proceedings have not been concluded and are expected to be lengthy. Since then Apple has however made an adjustment to its terms in the App Store where developers earnings less than USD 1m per year is subject to 15% commission instead of the standard 30%.

**Cross-platform brings new
competition for mobile developers****Cross platform play – merging PC, console and mobile**

A key gameplay trend that has been on the rise over the past years is that of cross-play i.e. the ability to play the same game across different platforms. One of the key triggers making Fortnite a big success was that friends could play together cross-platform i.e. independent on what hardware they were using, computer, console and mobile alike. Since then this has also been adapted on many other titles by other publishers. Cross-platform play is not to be mistaken for porting, which is adapting a game to play on another hardware but not necessarily allowing multi-play or access the same gameplay/profile over different hardware. In a sense, the cross-platform convergence in our view allows console and PC games to compete with the mobile games but not necessarily the other way around making it a potential negative for the mobile game developers where there was earlier a technological rift separating the different segments.

Game streaming – next evolution of gaming

Several large tech companies have unveiled game streaming services over the past year, which by some is regarded to be the next evolution in gaming where consumers via a subscription service may stream games without the need for a high-performance PC or console. Microsoft Gamepass, Sony PS Now, Google Stadia and Amazon Luna are among the leading services. Although not as hot a trend or as big a technological leap in mobile as in PC/console, there are aggregation/subscription services available, such as Rovio Hatch and Apple Arcade and streaming may possibly become more common also for the mobile segment in the future.

Peer overview

PC versus mobile, apples vs pears

As a sector, gaming typically competes with other forms of entertainment such as movies and music to attract the attention of customers. And although G5 Entertainment in a wider sense competes also with PC game developers and publishers, the most relevant peers are other mobile games developers as there are fundamental differences in the strategies and financial profiles between the two segments.

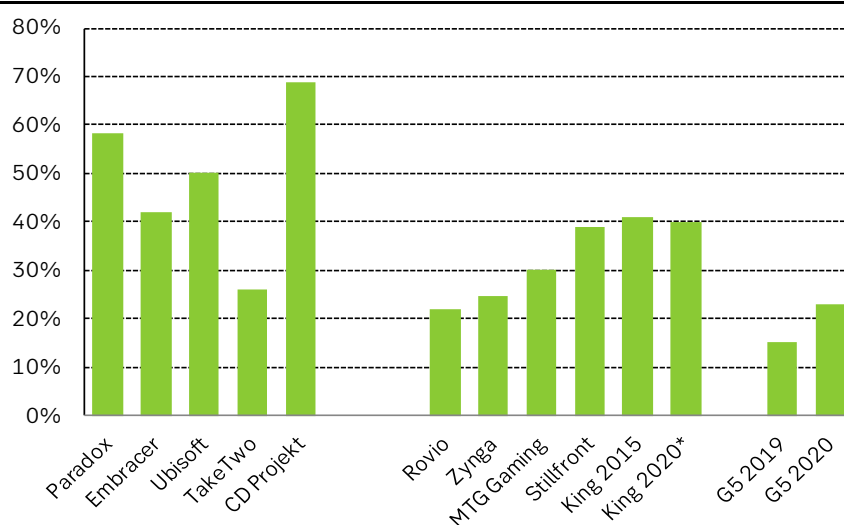
Both the PC and mobile game business models are scalable, and profitability may grow with increasing revenues. However in our view the margin scope is slightly less for mobile game developers than for PC developers, mainly because mobile game companies invest a lot more in customer acquisition, and pushing marketing to achieve growth adds a variable cost component that leads to lower drop through from top line growth. On the other hand, it is more expensive to develop a PC game than a mobile game, such that cash flow generation may still be similar for the two.

Mobile and PC developers have different preconditions

Given that 30% of sales goes to distribution, and 20-35% of sales goes to customer acquisition, the EBITDA margin scope should be capped at 30-35%. For the largest and most successful developers, higher margins have been noted. King, the Candy Crush Saga developer, reported a 41% EBITDA margin in 2015 before it was acquired by Activision Blizzard. Under Activision Blizzard's management it has EBITDA is no longer reported for the segment, but with Operational Income margin of 40% it appears profitability has continued to improve, we however view this as an outlier. Stillfront also have strong profitability with EBITDA target of 35%, which the overshoot in 2020.

In the chart below we have outlined EBITDA margins for key listed peers active in the PC/Console and mobile segments.

EBITDA margins PC developer's vs mobile 2020



Source: Factset, company reports full year 2020. *Operating Income – EBITDA not disclosed per segment.

Mobile developers rarely do >35% EBITDA margin

Main mobile peers

If we narrow our universe down to mobile gaming, competition consists of both pure mobile game developers such as, Zynga, Niantic, GLU, Rovio and Stillfront, and large developers that have mobile games as part of a larger offering such as Tencent (Supercell) Activision Blizzard (King), Embracer (DECA), Electronic Arts and others. Below we briefly describe some of the key peers and provide comparison between key KPIs.

Rovio is a mobile games company which had its breakthrough almost 10 years ago becoming almost synonymous with the Sling Shot category (casual) of games with Angry Birds. Angry Birds 2 is the company's largest game today although the portfolio now comprises various games over many different genres based on the Angry Birds franchise or other own IPs. SEB has research coverage of Rovio. It is listed on the Helsinki stock exchange, with a market capitalization c. EUR 0.5bn and 2019 revenue of EUR 272m.

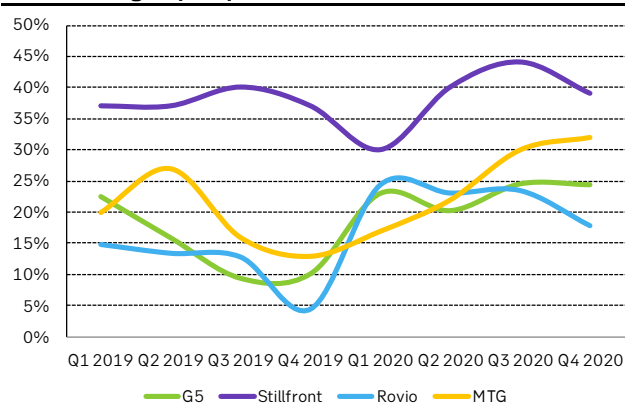
Stillfront is a group of mobile and browser game companies. It houses over 16 different studios and has a global footprint. The product portfolio has historically been heavily tilted towards strategy games, but now 40% is defined as Casual and Mashups. The company pursue acquisitions aggressively. It is listed on the Stockholm stock exchange, with a market capitalization of c. SEK 35bn and 2019 revenue of SEK 4bn

MTG Gaming, a business unit in MTG which comprises about 60% of group revenue. It has three divisions: InnoGames which is focused on strategy games, Kongregate which is a gaming platform and publisher with casual orientation and Hutch which is a racing game developer. SEB has research coverage of MTG. It is listed on the Stockholm exchange, with a market capitalization of EUR 0.5bn; 2020 game revenue was SEK 2.7bn.

King (Activision Blizzard) was acquired by Activision Blizzard in 2016 for USD 5.9bn and is the category leader in Match-3, with top grossing titles Candy Crush Saga released in 2012 considered one of the most financially successful free-to-play games. Other games include Bubble Witch Saga and Farm Heroes.

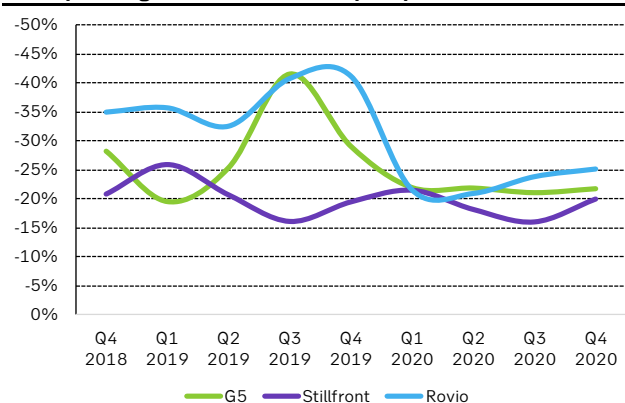
Private market competition. There are also numerous private companies developing free-to-play games in the Hidden objects, simulation and Match-3 genres. G5 identify for example Wooga (Berlin), MyTona (Russia), Vizor Interactive (Belarus), and Playrix (Ireland) as key competitors.

EBITDA margins per quarter



Source: SEB, company reports

UAC spending in relation to sales per quarter %



Source: SEB, company reports

The M&A angle

Fragmented market leaves room for consolidation

G5's growth has historically been organic. Our interpretation of recent communications from the company is that although growth via own games will be the main priority, management now appear more open to make complementary bolt-on acquisitions. Given a strong cash flow profile, debt free balance sheet and c. SEK 180m in gross cash (Q4 2020) we view this as credible and it could prove to be a strategically attractive route to boost growth.

Allocating around SEK 100m per year to acquisitions, based on multiples of 10x EBIT and profitability in line with the group, could add c. 4-6% in growth to our current 12.5% organic forecast, with total revenue of SEK >2bn by 2023 vs our current SEK 1.8bn forecast and EPS closer to SEK 40.

The mobile gaming market is fragmented, and consolidation is a theme, with several other Nordic peers pursuing acquisition strategies in the segment including Stillfront, Embracer and MTG. This might lead to increased prices, and competition for good studios. We think it would be strategically wiser for G5 to pursue smaller targets, which go under Stillfront and Embracer's radar, perhaps in the Eastern European region where G5 already has a presence and industry network, more specifically Ukraine and Russia, or possibly San Francisco. It would thus be less likely to compete head on with the others for potential targets.

Selected notable historical mobile game company acquisitions

Date	Company	Taker	Value (€0)
2021	Glu	Electronic Arts	USD 2.1bn
2021	Easybrain	Embracer	USD 640 (765m)
2020	A thinking Ape	Embracer	USD 31m (74m)
2020	DECA	Embracer	EUR 25m (60m)
2020	Hutch	MTG	USD 275m (100m)
2020	Nanobit	Stillfront	USD 100m (48m)
2020	Candywriter	Stillfront	USD 74.4m
2020	Storm8	Stillfront	USD 300m (100m)
2019	KixEye	Stillfront	USD 90m (30m)
2018	Small Giant Games	Zynga	USD 700m
2017	Googame	Stillfront	EUR 270m
2016	Supercell	Tencent	USD 10.2bn
2016	King	Activision Blizzard	USD 5.9bn

Source: SEB, company press releases

Given that the ownership of G5 is fragmented, with majority voting rights not concentrated in a small number of key shareholders, and still being nimble in size compared with the larger consolidators, we think it can also be considered a potential target. In our view the attractiveness as a target will increase if G5 can prove that its new portfolio of games can remain popular and growing, improving overall revenue diversification of the company, because its still-high dependency on Hidden City may be viewed as a negative for a potential bidder.

Electronic Arts bid an enterprise value of USD 2.1bn for Glu in February 2021, this correspond to 3.8x Glu revenue for 2020. Glu is roughly 3.5x larger than G5 measured in revenue, but similarly to G5 a stagnant 2019 was followed up by strong growth in 2020 through successful release of several new games which improved both growth profile and diversification in the portfolio. Applying 3.5x EV/Sales multiple on 2020 revenue for G5 would give an indicative takeout value of c. SEK 5bn or c. SEK 565 per share or SEK 600 on 2021E.

Valuation

Midpoint DCF equity value of SEK 645

Valuation Summary

Share price (SEK)	503		
Market Capitalisation (SEKm)	4,372		
YTD share performance	25		
Mid-point DCF value (SEK)	645		
	Low	High	Mid-point
DCF valuation range	533	776	645
Implied multiples at mid DCF value	2021E	2022E	2023E
EV/Sales	3.8x	3.2x	2.7x
EV/EBITDA	14.1x	11.6x	9.5x
PER	25.2x	22.4x	18.5x
Multiples mobile peer group median			
EV/Sales	4.2x	3.6x	n.a
EV/EBITDA	15.2x	12.8x	n.a
PER	22.7x	21.9x	n.a

Source: SEB, 02/03/2020

We arrive at a midpoint DCF-based value of SEK 645 per share. Main inputs are 7.5% WACC, double-digit growth to 2025 followed by a fade and an 18% steady state EBIT margin. If we adjust our base case EBITDA margin and growth forecasts by +/- 2pp, we get a SEK 533-776 sensitivity range. Based on the current share price of ca. SEK 500, and our model assumptions, the market is assigning an implied cost of equity of ca. 9.5% to the shares and implicit PER 2021E-22E on our DCF mid-point value is 25x and 22x and EV/EBITDA 14-12x which is relatively close to the mobile peer group median.

DCF Summary

DCF valuation (SEKm)		Weighted average cost of capital (%)	
NPV of FCF in explicit forecast period	2,215	Risk free interest rate	2.5
NPV of continuing value	3,037	Risk premium	5.0
Value of operation	5,251	Cost of equity	7.5
Net debt	(359)	After tax cost of debt	1.8
Share issue/buy-back in forecast period	-	WACC	7.5
Value of associated companies	-	Assumptions	
Value of minority shareholders' equity	-		
Value of marketable assets	-		
DCF value of equity	5,610	Number of forecast years	10
DCF value per share (SEK)	645	EBIT margin - steady state (%)	18.0
Current share price (SEK)	503	EBIT multiple - steady state (x)	11.6
DCF performance potential (%)	28	Continuing value (% of NPV)	57.8

Source: SEB

DCF Sensitivity

		Cost of Equity				
		6.5	7.0	7.5	8.0	8.5
Equity capital weight (%)	80	944	874	813	761	714
	90	835	773	720	673	632
	100	748	693	645	603	566
		Absolute change in EBITDA margin - all years				
		-2%	-1%	0	+1%	+2%
Abs. change in sales growth - all years	-2%	533	560	587	614	641
	-1%	558	587	615	644	672
	0	584	614	645	675	705
	+1%	612	644	676	708	740
	+2%	641	675	709	742	776

Source: SEB

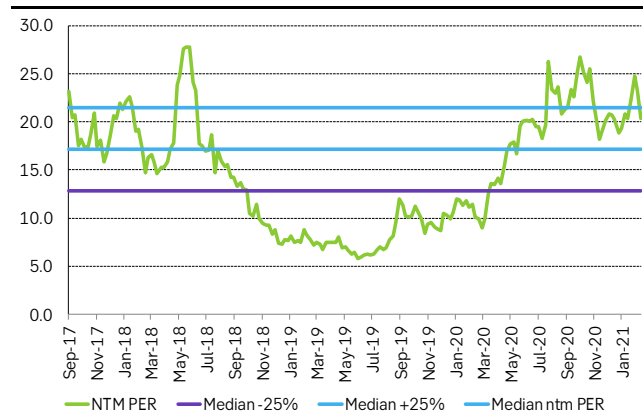
Multiples vs history and peers

Our mid-point DCF value corresponds to an implicit PER adj. of 25-19x 2021-2023E and 14-9.5x EV/EBITDA and at the current share price of c. SEK 500, the shares are trading to 19-14x and 10-7x respectively. This is meaningfully lower than the mobile peer group median of 23-22x and 15-13x.

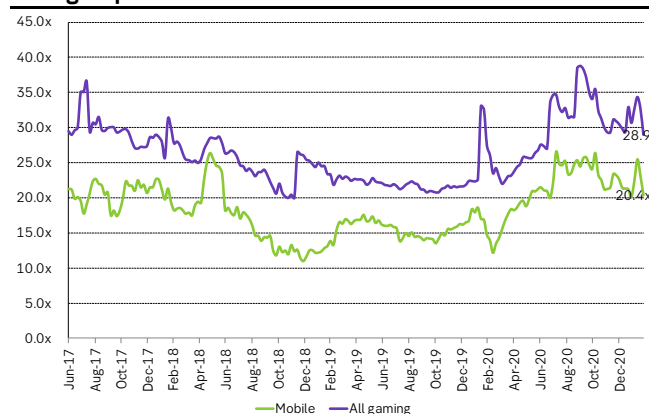
PER is a straightforward valuation measure against peers, but considering that G5 is free of long-term interest-bearing debt it is also relevant to look at EV-multiples, especially as some of the peers as some incorporate acquisitions as big part of their business model leading to higher debt and non-cash amortization.

Key locally listed peers are Stillfront and Rovio, but given the global nature of the games market it is also relevant to view performance relative to foreign mobile companies such as Zynga or Nexon and the larger publishers that have mobile segments such as Activision Blizzard, Electronic Arts, Embracer.

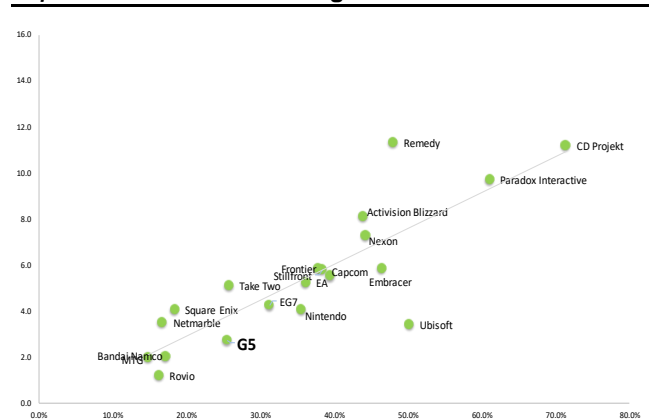
G5 historical NTM PER



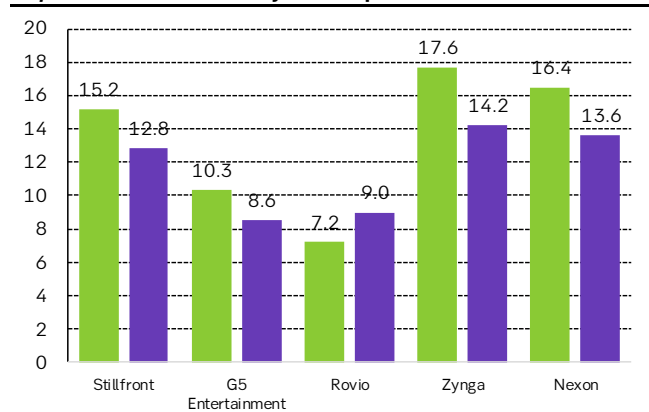
Peer groups historical NTM PER



EV/Sales 2021 vs EBITDA margin 2021



EV/EBITDA 2021-22E key mobile peers



Peer valuation table

Valuation overview	EV/Sales			EV/EBITDA			EV/EBIT			P/E			Div.% 2020E
	2020E	2021E	2022E	2020E	2021E	2022E	2020E	2021E	2022E	2020E	2021E	2022E	
Embracer	10.5	6.5	5.2	25.1	13.9	10.8	35.9	19.6	15.8	39.2	32.4	24.8	0.0%
Paradox Interactive	14.8	9.8	6.9	25.3	16.0	10.9	37.8	25.9	16.1	48.4	33.8	21.6	0.4%
Stillfront	9.1	5.8	5.0	23.3	15.2	12.8	24.2	17.4	14.4	29.2	22.7	18.3	0.0%
G5 Entertainment	2.5	2.8	2.3	10.7	10.3	8.6	17.5	15.9	13.5	21.4	19.0	16.9	1.5%
Rovio	1.2	1.2	1.1	5.6	7.2	9.0	7.1	9.4	12.8	14.8	18.2	25.9	1.9%
Remedy Entertainment	11.8	9.6	7.7	34.0	19.9	16.5	36.7	21.0	17.4	49.0	28.1	24.2	0.4%
MTG	2.4	2.0	1.6	17.8	11.5	8.6	26.2	16.5	12.5	302.7	47.9	32.9	0.0%
EA	5.6	5.2	4.9	16.0	14.5	13.7	17.2	15.6	14.3	24.7	22.5	20.5	0.1%
Activision Blizzard	8.5	8.1	6.9	20.5	18.5	15.4	21.2	18.8	15.9	28.5	27.0	23.6	0.4%
Take-Two	5.4	5.1	3.8	20.6	19.8	14.7	21.7	21.0	15.3	30.4	30.4	23.5	0.0%
Zynga	5.4	4.2	3.6	21.8	17.6	14.2	22.3	18.7	14.9	32.4	27.5	23.6	0.0%
Ubisoft	3.8	3.4	3.1	7.6	6.8	6.0	18.1	17.0	13.8	26.1	25.5	22.0	0.0%
Frontier Development	9.4	5.8	4.9	23.7	15.4	13.1	45.5	25.3	22.2	55.6	32.5	29.0	0.0%
CD Projekt	9.6	11.2	12.6	13.9	15.7	18.5	15.0	17.9	20.8	17.4	22.5	25.3	0.0%
Nintendo	4.0	4.1	4.0	11.1	11.4	11.7	11.3	11.5	11.9	18.5	19.0	19.9	2.9%
Square Enix	1.8	1.7	1.6	11.1	9.3	8.1	12.5	10.6	9.2	27.5	19.7	18.4	1.1%
Capcom	6.9	5.5	5.0	18.8	14.0	12.3	20.4	15.8	13.7	32.2	26.6	23.2	0.9%
Bandai Namco	2.2	2.0	1.9	15.8	11.7	9.9	20.3	14.5	12.0	33.1	22.9	19.9	1.5%
Nexon	8.5	7.3	6.1	20.7	16.4	13.6	22.2	17.2	14.0	54.7	24.3	21.9	0.1%
EG7	11.9	4.3	3.4	77.3	13.7	10.0	n.m.	23.0	16.9	n.m.	23.5	18.6	0.0%
Median	6.3	5.2	4.5	19.7	14.2	12.0	21.2	17.3	14.4	30.4	24.9	22.6	0.1%
Nordic	9.8	6.1	5.1	24.2	14.5	10.8	30.1	18.5	15.1	34.2	25.4	22.9	0.4%
US and European	5.5	5.2	4.3	20.6	16.5	14.0	21.5	18.8	15.1	29.5	27.3	23.6	0.0%
Asian	6.9	4.3	4.0	15.8	13.7	11.7	17.7	15.8	13.7	29.9	22.9	19.9	0.9%
PC/Console	6.3	5.4	4.9	19.7	15.0	12.7	20.8	18.3	15.1	31.3	26.8	23.4	0.3%
Mobile	5.4	4.2	3.6	20.7	15.2	12.8	22.2	17.2	14.0	29.2	22.7	21.9	0.1%

Source: SEB

DCF – assumption details

(SEKm)	2021E	2022E	2023E	2024E	2025E	Average year 6	Average year 7-8	Average year 9-10
Sales growth (%)	5.2	13.7	12.2	12.2	10.0	8.0	5.5	3.0
EBITDA margin (%)	26.7	27.1	28.5	29.9	30.0	30.0	29.3	28.3
EBIT margin (%)	17.3	17.2	18.5	19.9	20.0	20.0	19.3	18.3
Gross capital expenditures as % of sales	11.1	11.0	10.8	10.6	10.5	10.4	10.3	10.1
Working capital as % of sales	(1.0)	(0.7)	(0.5)	(0.5)	(0.5)	(0.5)	(0.5)	(0.5)
Lease repayments as % of sales	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Sales	1,427	1,622	1,821	2,044	2,248	2,428	2,638	2,839
Depreciation	(134)	(162)	(182)	(204)	(225)	(243)	(264)	(284)
Intangibles amortisation	0	0	0	0	0	0	0	0
EBIT	247	278	337	408	450	486	508	518
Taxes on EBIT	(37)	(42)	(51)	(61)	(67)	(73)	(76)	(78)
Increase in deferred taxes	0	0	0	0	0	0	0	0
Other	0	0	0	0	0	0	0	0
NOPLAT	210	237	286	347	382	413	432	440
Gross capital expenditure	(158)	(178)	(197)	(217)	(237)	(253)	(271)	(286)
Increase in working capital	(13)	(2)	(4)	1	1	1	1	0
Lease repayments	(10)	0	0	0	0	0	0	0
Free cash flow (incl. lease repayments)	163	218	268	335	371	403	425	439
ROIC (%)	34.1	29.4	27.5	33.0	36.0	38.5	39.9	40.5
ROIC-WACC (%)	26.6	21.9	20.0	25.5	28.5	31.0	32.4	33.0
Share of total net present value (%)	0.0	3.8	4.3	5.0	5.2	5.2	9.9	8.8

Source: SEB

Appendix:

Shareholders

The largest shareholder in G5 Entertainment is the CEO and co-founder Vlad Suglobov via holding company Wide Development. According to Holdings database Mr Suglobov also own 10,000 shares privately. Insider ownership is around 13% of capital, where the three founders have about 15% of capital and votes. Swedbank Robur is the largest financial institution, followed by SPSW Capital and Aktia Asset Management.

Shareholder structure

Largest shareholders as of 31 December 2020	% of capital
Wide Development (Vlad Suglobov)	6.6%
G5 Entertainment	5.5%
Purple Wolf (Aleksandr Tabunov)	5.5%
Avanza Pension	4.8%
Tommy Svensk	4.4%
Proxima (Sergey Shults)	4.1%
Swedbank Robur	3.5%
SPSW Capital	2.2%
Aktia Asset Management	2.0%
Daniel Eriksson	1.7%
Other	59.7%

Source: Holdings

Management and board ownership

Insider ownership as of 31 December 2020	% of capital	Relation to G5 Entertainment
Vlad Suglobov via Wide Development and own	6.7%	CEO, Co-founder, Board Member
Aleksandr Tabunov via Purple Wolf and own	5.5%	COO and Co-founder
Petter Nylander	0.3%	COB
Stefan Lundborg	0.2%	Board Member (inactive as of Dec-20)
Stefan Wikstrand	0.1%	CFO

Source: Holdings

Senior management



CEO - Vlad Suglobov owns 600,000 shares via a holding company and 10,000 on his own account and 30,000 performance shares. Mr Suglobov is a games industry professional with more than 24 years of experience. In 2000, Mr Suglobov graduated from Moscow State University with an M.Sc. in mathematics and programming. He has been CEO since inception and in 2011, he moved from Moscow to San Francisco to establish G5's marketing operations in the US.



COO - Aleksandr Tabunov holds 537,000 shares via a holding company and 700 on his own account and 30,000 performance shares. Mr Tabunov is an experienced IT manager with a background in software engineering. Since co-founding G5 in 2001, Mr Tabunov has been responsible for G5's day-to-day operations and processes while holding the position of COO. Mr Tabunov received his master's degree in computer science from Moscow State Institute of Electronics and Mathematics.



CFO - Stefan Wikstrand owns 13,200 shares and 9,900 performance shares. Mr Wikstrand has held the positions of CFO and deputy CEO since June 1, 2015. He has previous experience from financial positions in Tradedoubler and KPMG. He has a degree from Jönköping International Business School.

Board of directors

Vlad Suglobov - See description in management section.



Petter Nylander owns 24,500 shares. in G5 Entertainment and has been a board member since 2018. In 1994, Mr Nylander joined MTG AB and held several senior positions, including CEO of TV3 and from 2005 to 2010 he held the position of CEO of Unibet Group (now called Kindred). Other engagements include Director of the Board for Besedo Services AB, Director of the Board for Sonetel AB, Chairman of the Board for Gaming Innovation Group and CEO of Universum Communications. Mr Nylander has a bachelor's degree in business administration from Stockholm University.



Johanna Fagrell Köhler owns 800 shares. She started out as Business Unit Director at Icon Medialab, one of the leading digital agencies in Scandinavia, around the turn of the millennium. In 2002, she founded and became the CEO of her own design agency, Summer. Among other current assignments board positions in companies such as S-Group and FSport AB. Ms Fagrell Köhler has a master's degree in business administration from the Lund University.



Stefan Lundborg owns 15,250 shares. Mr Lundborg got his start as an entrepreneur, acquiring in-depth knowledge in running and managing companies, which he has continued to apply in his advisory roles. Mr Lundborg is currently Director of the Board of Kindred Group plc and LOX Container Technology AB. Stefan is also Chairman of the Board of Note Design Studio AB. Mr Lundborg has together the Chairman of the Board decided that he will not participate in the Board work of G5 until further information is presented from an ongoing investigation by the Swedish Economic Crime Authority.



Jeffrey W. Rose holds 2,000 shares Mr Rose is an attorney specializing in intellectual property licensing, development, publishing, and strategy. For more than 25 years, he has served clients in the interactive entertainment, film, television, new media, and technology industries, providing counsel on a wide spectrum of successful projects. He received an A.B., magna cum laude, from Duke University in 1984 and a J.D. from the UCLA School of Law in 1987.



Marcus Segal owns 500 shares. Mr Segal is a strategist and operations executive with over 17 years of experience scaling technology companies. Segal spent over 7 years with Zynga serving as SVP of Operations and COO of Game Studios. Prior to joining Zynga, Mr Segal was the founder and CFO of Vindicia Inc., a company focused on providing advanced billing and risk solutions (sold to AMDPCS). Before Vindicia, He was the SVP of Operations at eMusic [Nasdaq EMUS] through their acquisition by Universal Music Group in 2003.

Game gross rank data

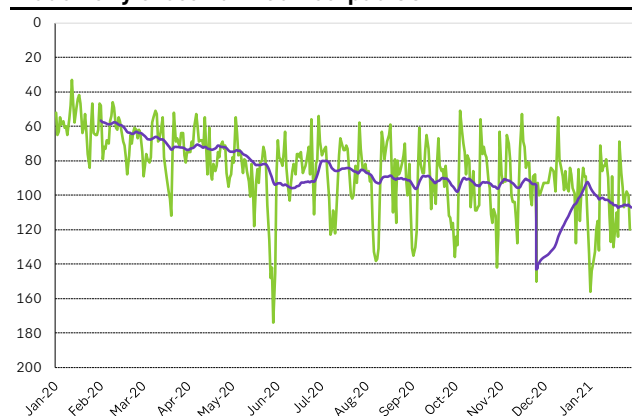
Below we have gathered an overview of the gross rank trend for some of G5s top games on the IOS platform, Ipad and/or Iphone, for the Games category in the US, the company's major market. The data is collected from G5info.se, which is domain and service which is free to access and independent from the company. Please note that G5 also generate revenue from other platforms such as Windows, Amazon and Google. It has also released several new games not yet having achieved high enough rank show in the statistics. Still the information can be a helpful tool in short term forecasting as it captures trend changes in some of the most important revenue sources.

Hidden City Gross Rank Games Iphone USA



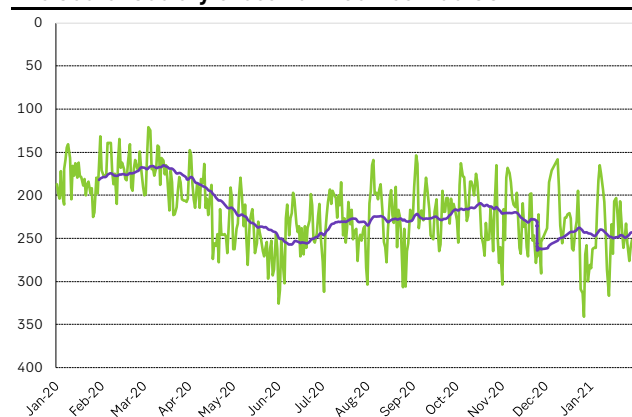
Source: G5info

Hidden City Gross Rank Games Ipad USA



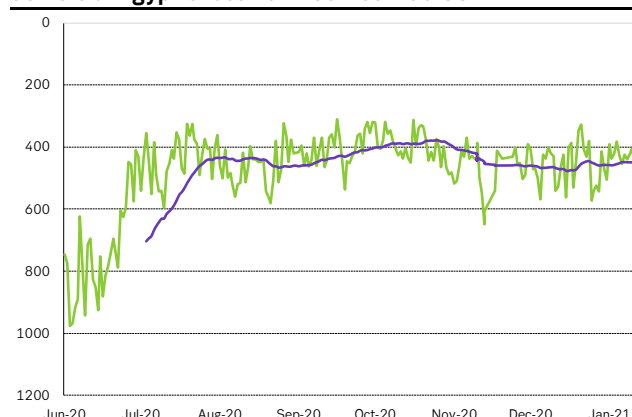
Source: G5info

The Secret Society Gross Rank Games iPad USA

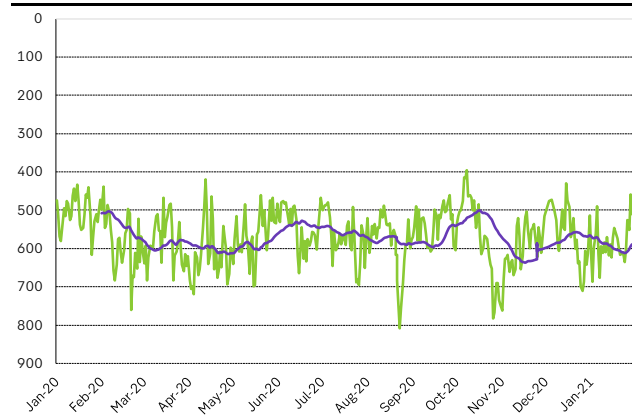


Source: G5info

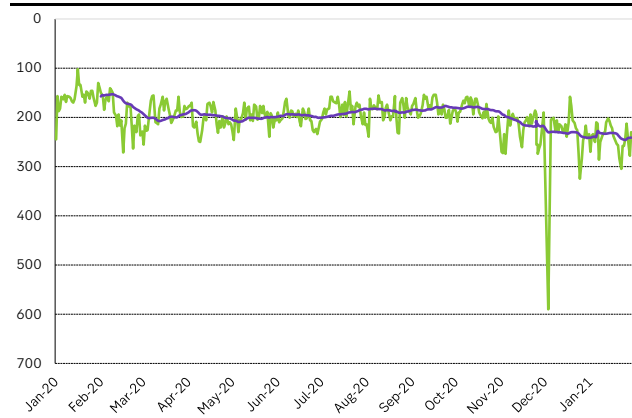
Jewels of Egypt Gross Rank Games iPad USA



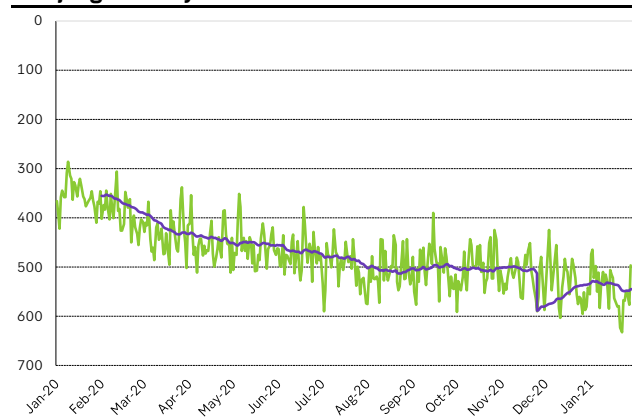
Source: G5info

Jewels of Rome Gross Rank Games iPhone USA

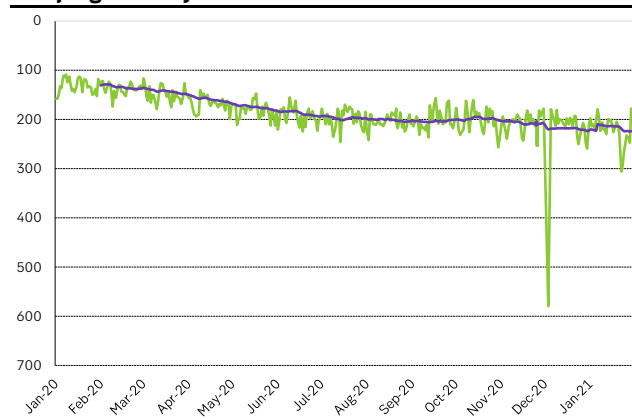
Source: G5info

Jewels of Rome Gross Rank Games iPad USA

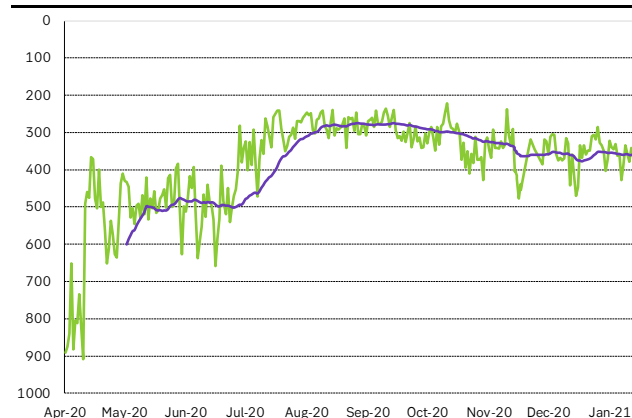
Source: G5info

Mahjong Journey Gross Rank Games iPhone USA

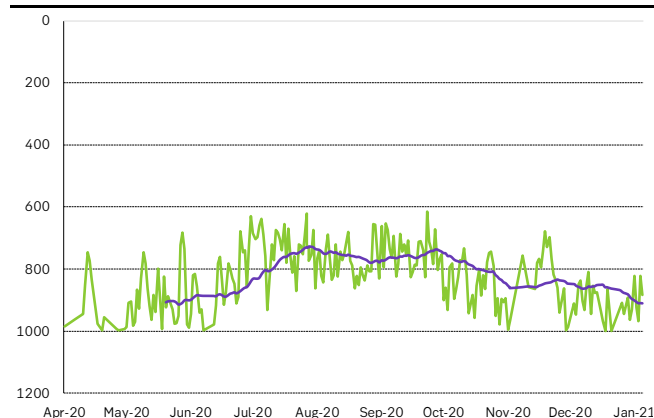
Source: G5info

Mahjong Journey Gross Rank Games iPad USA

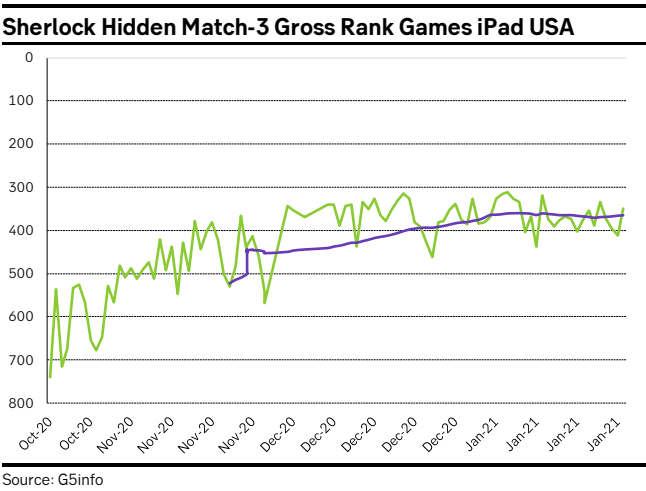
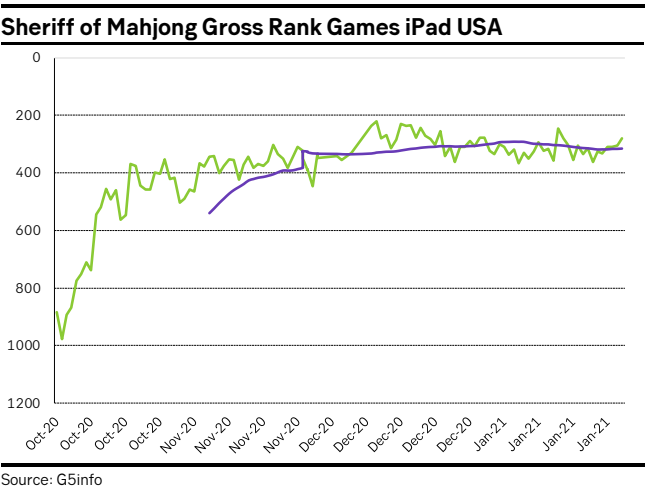
Source: G5info

Jewels of West Gross Rank Games iPad USA

Source: G5info

Jewels of West Gross Rank Games iPhone USA

Source: G5info



Overview

Investment considerations

With publishing title Hidden City having matured, the company is in transition to grow revenue via its internally developed titles which include expansion into the broader Puzzle Games category, including Match-3, Solitaire and Word Games. This underlines potential for continued growth combined with higher profitability driven by mix, which is supportive for gross margin.

Company profile

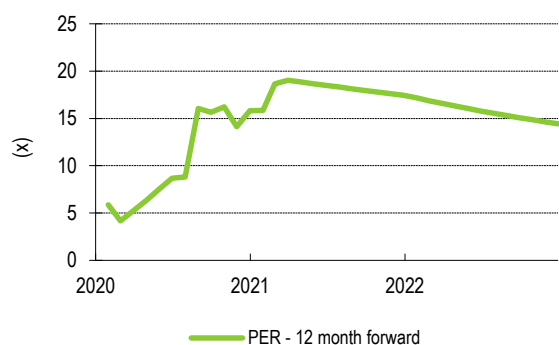
G5 Entertainment is a developer and publisher of free-to-play games, with market leadership in the Hidden Object segment: its main target group is predominantly female players aged over 35. The company has about 700 FTEs where the main operational hubs for development are in Moscow, Kaliningrad and Kharkov. Geographically, the most important end-markets are the US and Asia, which combined accounted for 78% of 2019 revenue.

Valuation approach

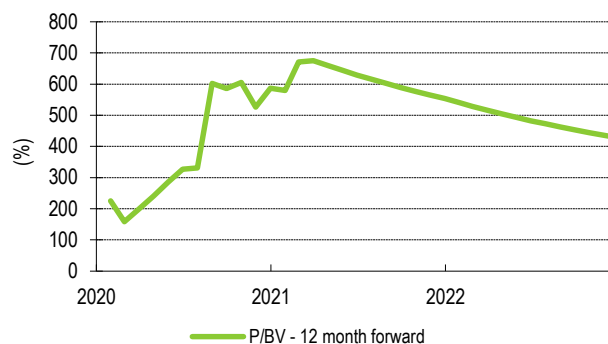
We value the shares using a DCF model, but also consider multiples of comparable peers.

Investment risks

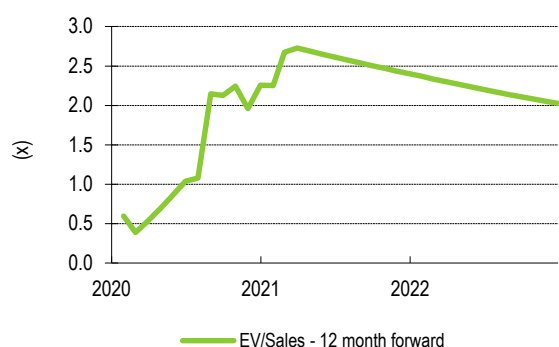
Competition is high in the mobile and free to play segment and high marketing spend is often required to attract users. Failure in execution to attract or retain players may have a negative impact on earnings.

PER - 12 month forward

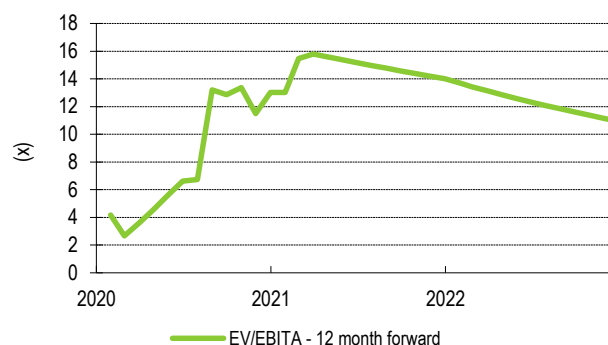
Source: SEB

P/BV - 12 month forward

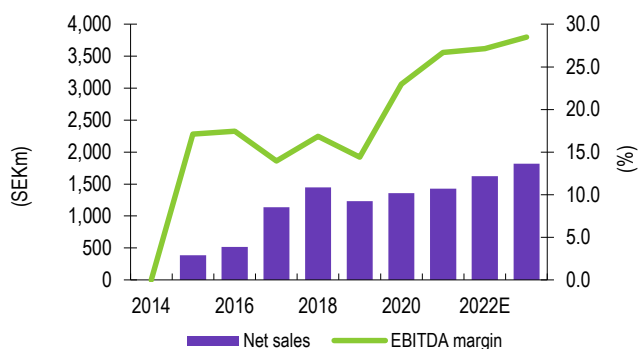
Source: SEB

EV/Sales - 12 month forward

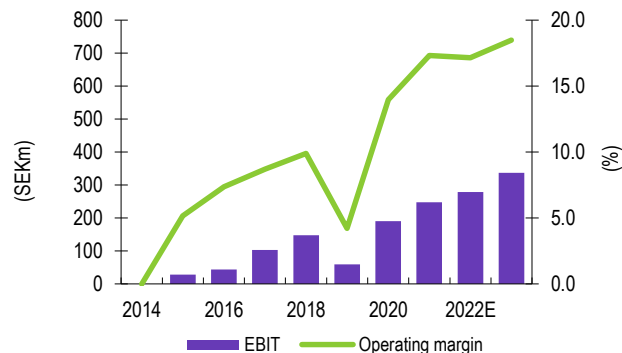
Source: SEB

EV/EBITA - 12 month forward

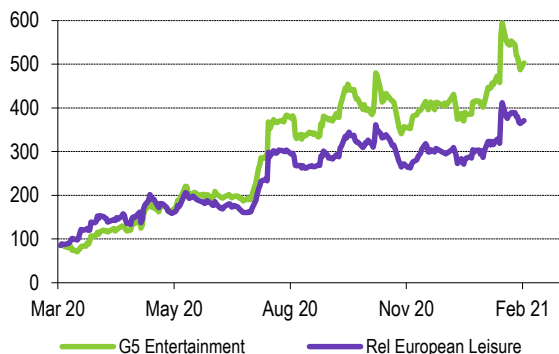
Source: SEB

Net sales & EBITDA margin

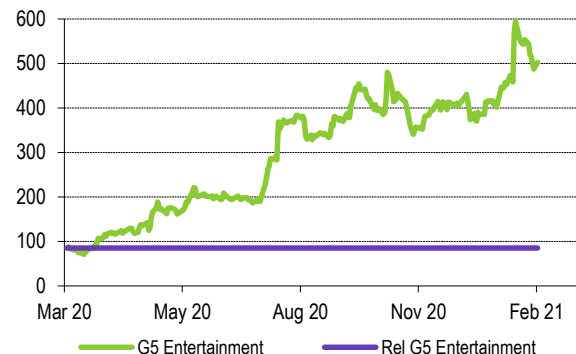
Source: SEB

EBIT & Operating margin

Source: SEB

Comparison with sector index - 1 year

Source: SIX

Comparison with G5 Entertainment - 1 year

Source: SIX

Profit & loss statement - G5 Entertainment										
(SEKm)	2014	2015	2016	2017	2018	2019	2020	2021E	2022E	2023E
Net Sales	0	384	517	1,135	1,450	1,233	1,356	1,427	1,622	1,821
Other revenues	0	0	0	0	0	0	0	0	0	0
Total revenues	0	384	517	1,135	1,450	1,233	1,356	1,427	1,622	1,821
Total expenses	0	(319)	(427)	(977)	(1,206)	(1,055)	(1,044)	(1,046)	(1,182)	(1,302)
Profit before depreciation	0	66	90	158	244	178	312	381	440	519
Depreciation - Fixed assets	0	(10)	(8)	(7)	(8)	(23)	(16)	(13)	(16)	(18)
Depreciation - Other assets	0	(36)	(44)	(53)	(92)	(103)	(106)	(120)	(146)	(164)
Amortisation - Goodwill	0	0	0	0	0	0	0	0	0	0
Amortisation - Other intangibles	0	0	0	0	0	0	0	0	0	0
Operating profit	0	20	38	99	143	52	190	247	278	337
Net interest expenses	0	(0)	(0)	0	0	(0)	(1)	0	0	0
Foreign exchange items	0	0	0	0	0	0	0	0	0	0
Other financial items	0	0	0	0	0	0	0	0	0	0
Value changes - Fixed assets	0	0	0	0	0	0	0	0	0	0
Value changes - Financial assets	0	0	0	0	0	0	0	0	0	0
Value changes - Other assets	0	0	0	0	0	0	0	0	0	0
Reported pre-tax profit	0	20	38	99	144	52	189	247	278	337
Minority interests	0	0	0	0	0	0	0	0	0	0
Total taxes	0	(4)	(5)	(13)	(15)	(7)	(22)	(25)	(28)	(34)
Reported profit after tax	0	15	33	86	129	45	167	222	250	303
Discontinued operations	0	0	0	0	0	0	0	0	0	0
Extraordinary items	0	0	0	0	0	0	0	0	0	0
Net Profit	0	15	33	86	129	45	167	222	250	303
Adjustments:										
Discontinued operations	0	0	0	0	0	0	0	0	0	0
Interest on convertible debt	0	0	0	0	0	0	0	0	0	0
Minority interests (IFRS)	0	0	0	0	0	0	0	0	0	0
Value changes	0	0	0	0	0	0	0	0	0	0
Goodwill/intangibles amortisations	0	0	0	0	0	0	0	0	0	0
Restructuring charges	0	0	0	0	0	0	0	0	0	0
Other adjustments	0	8	6	4	5	7	0	0	0	0
Tax effect of adjustments	0	(1)	(1)	(0)	(0)	(1)	(0)	0	0	0
Adjusted profit after tax	0	23	38	90	133	52	168	222	250	303
Margins, tax & returns										
Operating margin	0.0	5.1	7.4	8.7	9.9	4.2	14.0	17.3	17.2	18.5
Pre-tax margin	0.0	5.1	7.4	8.7	9.9	4.2	13.9	17.3	17.2	18.5
Tax rate	0.0	22.5	12.7	12.7	10.3	12.9	11.5	10.0	10.0	10.0
ROE	0.0	13.5	23.4	44.1	44.6	12.3	40.9	43.1	36.1	33.4
ROCE	0.0	24.6	30.9	52.6	51.3	16.2	45.6	46.9	39.1	36.5
Growth rates y-o-y (%)										
Total revenues	n.a.	n.a.	34.5	119.7	27.7	(15.0)	10.0	5.2	13.7	12.2
Operating profit	n.m.	n.m.	92.6	158.9	45.4	(63.9)	265.8	30.4	12.6	21.0
Pre-tax profit	n.m.	n.m.	92.7	159.3	45.3	(64.0)	264.9	30.9	12.6	21.0
EPS (adjusted)	0.0	0.0	69.4	129.3	45.9	(60.8)	234.5	33.5	12.6	21.0
Cash flow										
(SEKm)	2014	2015	2016	2017	2018	2019	2020	2021E	2022E	2023E
Net profit	0	15	33	86	129	45	167	222	250	303
Non-cash adjustments	0	46	52	60	101	126	113	134	162	182
Cash flow before work cap	0	61	85	146	229	171	280	356	412	485
Ch. in working capital / Other	6	8	19	(31)	62	(32)	(5)	(13)	(2)	(4)
Operating cash flow	6	69	105	116	292	139	275	343	410	482
Capital expenditures	(35)	(54)	(54)	(98)	(143)	(124)	(129)	(158)	(178)	(197)
Asset disposals	0	0	0	0	0	0	0	0	0	0
L/T financial investments	0	0	0	0	0	0	0	0	0	0
Acquisitions / adjustments	0	0	0	0	0	0	0	0	0	0
Free cash flow	(28)	15	51	17	149	14	146	185	232	285
Net loan proceeds	0	0	0	0	0	0	0	0	0	0
Dividend paid	0	0	0	0	(7)	(22)	(22)	(54)	(61)	(70)
Share issue	0	0	0	0	2	(8)	(66)	0	0	0
Other	69	(15)	(39)	(30)	(31)	(32)	(14)	0	(0)	(0)
Net change in cash	41	(0)	12	(13)	113	(47)	44	130	171	215
Adjustments										
C/flow bef chng in work cap	0	61	85	146	229	171	280	356	412	485
Adjustments	0	0	0	0	0	0	0	0	0	0
Int on conv debt net of tax	0	0	0	0	0	0	0	0	0	0
Cash earnings	0	61	85	146	229	171	280	356	412	485
Per share information										
Cash earnings	0.0	6.96	9.71	16.2	25.2	18.9	32.0	40.9	47.4	55.8
Operating cash flow	0.73	7.83	11.9	12.8	32.1	15.3	31.4	39.4	47.1	55.4
Free cash flow	(3.22)	1.68	5.8	1.91	16.4	1.58	16.7	21.2	26.6	32.7
Investment cover										
Capex/sales (%)	0.0	1.0	0.6	0.4	0.5	0.7	0.2	0.7	0.7	0.8
Capex/depreciation (%)	0	40	43	75	90	36	14	71	66	76

Source for all data on this page: SEB

Balance sheet - G5 Entertainment										
(SEKm)	2014	2015	2016	2017	2018	2019	2020	2021E	2022E	2023E
Cash and liquid assets	33	34	71	91	139	152	188	319	490	704
Debtors	15	14	6	60	18	14	12	18	20	22
Inventories	0	0	0	0	0	0	0	0	0	0
Other	22	25	57	123	103	102	115	126	139	153
Current assets	69	73	134	274	260	268	315	463	648	880
Interest bearing fixed assets	0	0	0	0	0	0	0	0	0	0
Other financial assets	1	2	9	22	64	38	58	58	58	58
Capitalized development cost	72	94	109	115	198	211	205	233	255	275
Goodwill	2	2	2	2	0	0	0	0	0	0
Other intangibles	0	0	0	0	0	0	0	0	0	0
Fixed tangible assets	3	5	6	8	11	31	16	12	6	2
Other fixed assets	0	0	0	0	0	0	0	0	0	0
Fixed assets	78	104	126	148	274	280	278	303	319	334
Total assets	147	177	260	422	533	548	593	765	967	1,214
Creditors	13	12	31	9	26	27	13	27	31	35
Other trade financing	4	8	16	42	77	57	75	65	73	82
S/T interest bearing debt	0	0	0	0	0	10	5	5	5	5
Other	26	33	50	134	83	65	67	67	67	67
Current liabilities	43	53	97	186	186	159	159	163	176	188
L/T interest bearing debt	0	0	0	0	0	0	0	0	0	0
Other long-term liabilities	0	0	0	0	0	0	0	0	0	0
Convertible debt	0	0	0	0	0	0	0	0	0	0
Pension provisions	0	0	0	0	0	0	0	0	0	0
Other provisions	0	0	0	0	0	0	2	2	2	2
Deferred tax	0	0	2	6	0	4	1	1	1	1
Long term liabilities	0	0	2	6	0	4	2	2	2	2
Minority interests	0	0	0	0	0	0	0	0	0	0
Shareholders' equity	104	123	161	230	347	386	432	600	789	1,023
Total liabilities and equity	147	177	260	422	533	548	593	765	967	1,214
Net debt (m)	(33)	(34)	(71)	(91)	(139)	(142)	(182)	(302)	(473)	(688)
Working capital (m)	(6)	(14)	(33)	(3)	(65)	(32)	(27)	(15)	(12)	(9)
Capital employed (m)	104	123	161	230	347	396	438	616	806	1,039
Net debt/equity (%)	(31)	(27)	(44)	(40)	(40)	(37)	(42)	(50)	(60)	(67)
Net debt/EBITDA (x)	n.a.	(0.5)	(0.8)	(0.6)	(0.6)	(0.8)	(0.6)	(0.8)	(1.1)	(1.3)
Equity/total assets (%)	71	70	62	55	65	70	73	78	82	84
Interest cover	0.0	404.6	604.9	12,353.4	840.7	43.7	189.8	0.0	0.0	0.0
Valuation										
(SEK)	2014	2015	2016	2017	2018	2019	2020	2021E	2022E	2023E
No of shares, fully dil. (y/e)	8.8	8.8	8.8	9.0	9.1	9.0	8.7	8.7	8.7	8.7
No of shares, fully dil. avg.	8.8	8.8	8.8	9.0	9.1	9.0	8.8	8.7	8.7	8.7
Share price, y/e							404.8	502.5	502.5	502.5
Share price, high							504.5	607.5		
Share price, low							67.1	361.0		
Share price, avg							251.6	455.4		
EPS (reported)	0.00	1.74	3.78	9.59	14.2	4.98	19.1	25.6	28.8	34.8
EPS (adjusted)	0.00	2.58	4.37	10.0	14.6	5.72	19.1	25.6	28.8	34.8
Cash earnings/share	0.00	6.96	9.71	16.2	25.2	18.9	32.0	40.9	47.4	55.8
Dividend/share	0.00	0.00	0.75	2.50	2.50	2.50	6.25	7.00	8.00	10.0
Enterprise value/share							384	468	448	423
Book value/share	11.9	14.0	18.3	26	38	43	50	69	91	118
Adjusted equity/share	11.9	14.0	18.3	26	38	43	50	69	91	118
PER (adjusted)							21.1	19.7	17.5	14.4
CEM							12.7	12.3	10.6	9.0
Dividend yield							1.5	1.4	1.6	2.0
EV/EBITDA							10.7	10.7	8.9	7.1
EV/EBITA							17.6	16.5	14.0	10.9
EV/EBIT							17.6	16.5	14.0	10.9
EV/Sales (x)							2.46	2.85	2.40	2.02
Price/Book value							8.16	7.29	5.54	4.27
Price/adjusted equity							8.16	7.29	5.54	4.27
Free cash flow/Market cap (%)							4.1	4.2	5.3	6.5
Operating cash flow/EV (%)							8.2	8.4	10.5	13.1
EV/Capital employed (x)							7.6	6.6	4.8	3.5
Main shareholders										
Management				Company information						
Name	(%)	Votes	Capital	Title	Name	Contact				
Wide Development	6.7		6.6	COB	Petter Nylander	Internet				
Purple Wolf	5.6		5.5	CEO	Vlad Suglobov	Phone number				
Tommy Svensk	4.6		4.4	CFO	Stefan Wikstrand					
Foreign owners (total)	48.0		48.0	IK						

Source for all data on this page: SEB

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