Corporate Research

Gaming Innovation Group

SEB

Company Update	Leisure	Norway	01 July 2020

A transformational year ahead

After a challenging 2019, we see scope for improved operational performance. The divestment of Gaming was, in our view, a financial necessity, but also an opportunity to refine and focus the overarching business model. With the wide scope for cost savings, we believe the EBITDA margin could expand beyond 35% in 2021 with a return to growth. An improved financial outlook in our view supports the revaluation potential of the shares.

In a turnaround phase after a tough 2019 – focus on B2B

Over the past year, the company has set in motion several organisational changes to reverse its negative trend, including a change in leadership and large-scale cost savings. The divestment of B2C in April was a transformational initiative, allowing the company to repay its SEK 300m 2020 bond and transition to a B2B company with the affiliate division and platform as the largest business segments.

Return to growth and cost savings support EBITDA margin to over 35%

We expect cost savings to be the main earnings driver in the short term and with a successful turnaround of Core and Sports Betting Services in 2020, we see potential for the group EBITDA margin to expand to beyond 35% in 2021-22 for the "New GiG". We forecast a revenue CAGR of 9% in B2B to 2022 with mid-single digit growth in Media and double-digit in Core, where we expect a sequential step change in Q2/20 thanks to the contribution from Betsson. Longer-term opportunities lie in signing new platform clients and tapping into new growth markets, such as the US via the Hard Rock partnership and Sky City in New Zealand.

Our SOTP analysis suggest equity valuation of SEK 13.0 per share

Our DCF analysis yields a mid-point value of SEK 17.6 using a 10 % WACC and implies a 25% CoE at the current share price. Our SOTP points to an intrinsic value of SEK 13.0 and moreover suggest that the market is currently assigning negative value to GiG Core and Sports Betting Services. On our updated forecasts the shares trade at a negative PER in 2020 and 9.1x 2021E and 5.5x 2022E.

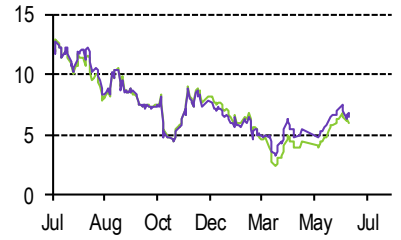
Key Data (2020E)

Price (SEK)	6.01
Reuters	GIGSEK.ST
Bloomberg	GIGSEK.SS
Market cap (SEKm)	538
Market cap (USDm)	58
Market cap (EURm)	51
Net debt (EURm)	21
Net gearing	120%
Net debt/EBITDA (x)	1.4
Shares fully dil. (m)	895.7
Avg daily turnover (m)	0.0
Free float	54%

Estimate Revisions (%)

	2020E	2021E	2022E
Revenues	0	0	(0)
Adj. EBIT	42	34	14
Adj. EPS	30	67	23

Share Price (12M)



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

Marketing communication commissioned by:
Gaming Innovation Group

Financials (EUR)

Year end: Dec	2018	2019	2020E	2021E	2022E
Revenues (m)	151	123	77	62	67
Adj. EBIT	2	(30)	(3)	8	12
Pre-tax profit (m)	6	(64)	(5)	6	10
EPS	0.05	(0.72)	(0.06)	0.06	0.10
Adj. EPS	0.24	(0.23)	(0.06)	0.06	0.10
DPS	0.00	0.00	0.00	0.00	0.00
Revenue growth (%)	25.7	(18.7)	(37.7)	(19.4)	7.7
Adj. EBIT growth (%)	46.5	n.m.	n.m.	n.m.	50.6
Adj. EPS growth (%)	n.m.	n.m.	n.m.	n.m.	65.4
Adj. EBIT margin (%)	1.6	(24.4)	(4.3)	13.2	18.4
ROE (%)	4.9	n.m.	(26.1)	28.2	33.9
ROCE (%)	1.4	(24.8)	(4.8)	15.4	20.3
PER (x)	9.5	n.m.	n.m.	9.2	5.5
Free cash flow yield (%)	2.4	(3.2)	9.9	16.0	23.5
Dividend yield (%)	0.0	0.0	0.0	0.0	0.0
P/BV (x)	2.31	3.14	3.00	2.26	1.61
EV/Sales (x)	1.66	1.03	0.94	1.03	0.78
EV/Adj. EBITDA (x)	15.7	8.9	4.9	2.9	2.1
EV/Adj. EBIT (x)	106.9	(4.2)	(21.7)	7.8	4.2
Operating cash flow/EV (%)	6.5	7.6	20.0	26.4	43.2
Net debt/Adj. EBITDA (x)	3.08	4.01	1.39	0.56	0.01

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

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Affiliate and Platform company following B2C divestment

Turnaround in motion after a challenging 2019

Gaming Innovation Group (GiG) is a technology company offering cloud-based product and platform services and performance marketing to its B2B partners. After a financially challenging 2019, when the company was impacted by the termination of a large platform contract and regulation in Sweden, several organisational changes have been put in motion to reverse the negative trend. In April GiG divested its B2C business which improved its balance sheet and the focus can now be directed to the B2B offering, leveraging the product investments over the previous years in order to return to earnings growth and positive cash flow.

Cost savings hold potential to significantly improve profitability

Cost savings and divestment of B2C could enable over 35% EBITDA margin

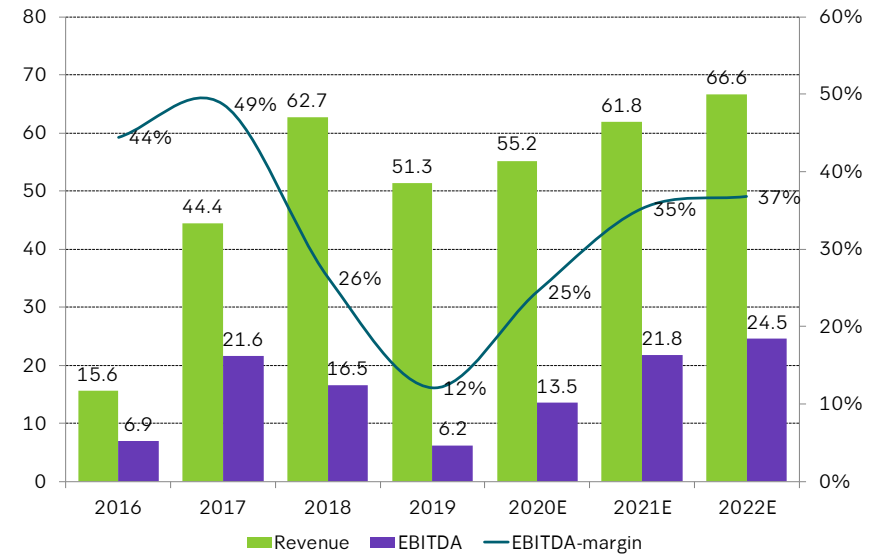
We expect cost cuts to be the main earnings driver in the short term and a successful turnaround of Core and Sports Betting Services in 2020 to be the key trigger to allow the group margin to potentially expand to beyond 35% in 2021-22 for the "New GiG", with scope to scale further depending on the success in Core. Management has set in motion several initiatives including headcount reductions with a target to end 2020 with 430 FTEs, savings in Sport Betting Services in order to achieve breakeven in Q4 2020, and migration of the IT infrastructure. In summary, we see the potential to reduce B2B opex by around 20% from 2019 to 2021 to around EUR 50m.

We forecast new all-time high revenue and EBITDA in B2B in 2022

Existing and new growth drivers support return to growth

Supported by a growing underlying online gambling market, there should be ample growth potential for GiG if it can successfully manoeuvre the market and win clients, especially with exposure to the emerging US online gambling market via its contract with Hard Rock International. We forecast a 9% CAGR for GiG between 2019 and 2022, with mid-single digit growth in GiG Media and double-digit growth in GiG Core, where we expect the most scope for improvement. We expect a step change in Core as of Q2 supported by the revenue contribution from Betsson, while the strategic contracts signed in 2018 and 2019 with Hard Rock International and SkyCity could start to ramp up more meaningful volumes.

GiG revenue and EBITDA (excluding B2C)



Source: SEB

Key risks and investment concerns

As our forecasts build upon the case that GiG can achieve breakeven in Core and Sports Betting Services during 2020, a failure to do so is the most tangible short-term risk to the investment case and for the company to achieve a turnaround. The company has provided guidance on what it sees are the potential savings via its different initiatives, which in our view validates our forecasts, but there is an execution and timing component and a risk which is difficult to assess from an outside perspective.

Liquidity remains under pressure in the near term

Financial risk in the company was reduced following the divestment of B2C and the redemption of the 2020 bond, but the liquidity is still quite pressured with reported EUR 5.1m in cash holding in Q1 with B2C as a discontinued operation. The company received a prepayment from Betsson of EUR 8.7m in April which is supportive for the short term, but the liquidity could quickly become challenged due to unforeseen events, such as loss of another large platform client or regulatory changes impacting the use of affiliates. This could result in the need to raise cash via expensive loans or a defensive equity issue.

Regulatory implementations have come a long way in Europe with the majority of countries now having some type of licence system in place, with mainly the Nordics lagging somewhat with monopolies still in place in Norway and Finland. As Norway and Finland are important markets for GiG, it will be sensitive to regulatory changes in these markets, where the introduction of betting duties or tightening consumer protection and marketing mandates could have negative financial impact on GiG Media and on its platform clients.

Our SOTP analysis suggest equity valuation of SEK 13.0 per share

As the businesses are in different stages of their lifecycles and have different growth and earnings potential, we argue that an SOTP valuation is the fairest method to value Gaming Innovation Group. Our SOTP calculation suggests an intrinsic value of SEK 13.0 per share which is considerably higher than current share price of SEK 5.5. We believe this implies that the market does not account for a successful turnaround in Core and Sport Betting Services, underlining good revaluation potential in the event of improved performance.

Market currently not discounting a turnaround in Core and SBS

Valuation Summary			
Share price (SEK)	5.6		
Market Capitalization (SEKm)	504		
SOTP valuation (SEK)	13.0		
Mid-point DCF value (SEK)	17.3		
	Low	High	Mid-point
DCF valuation range	14.1	17.3	21.0
Implied multiples at SOTP SEK 13.0	**2020E**	**2021E**	**2022E**
EV/EBITDA	8.9x	6.0x	5.4x
EV/EBIT	-39.5x	16.1x	10.7x
PER	-16.0x	22.0x	12.7x

Source: SEB

We value GiG Media at 5x 2020E EBITDA, Sports Betting Services at EUR 0m as we expect a very limited future contribution to earnings, and GiG Core, currently loss-making, at 2x 2020E sales, reflecting our expectation of a turnaround in the business area during the year. Based on 5x EBITDA, GiG Media alone in our view could justify a value of SEK 7.9 per share, implying that the market is currently assigning negative value to the struggling Platform and Sport Betting Services. For reference our DCF model with a 10% WACC yields a mid-point value of SEK 17.6 and a range of SEK 14-21 if we adjust our base case EBITDA margin and growth forecasts by +/- 2pp. According to our DCF model, at the current share price of around SEK 6, the market is assigning an implied cost of equity of 25%, reflecting the company's challenged situation.

Backdrop

Opening up iGaming

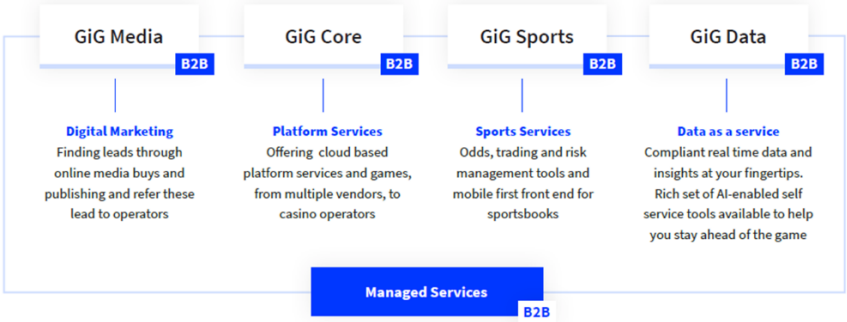
"The one conversation you need to have"
Gaming Innovation Group (GiG) is a technology company offering cloud-based product and platform services and performance marketing to its B2B partners. Previously it operated several consumer brands before divesting them to Betsson in April 2020. The company aspires to be a one-stop-shop and partner for existing and aspiring online gambling operators, as demonstrated by the headline which meets anyone visiting its website "The one conversation you need to have".

B2B partner for both land-based and pure online operators

The company has been expanding its product portfolio over the past couple of years and is active in most segments of the supplier value chain. Performance based/affiliate marketing (GiG Media), software platform solutions (GiG Core), and sportsbook (GiG Sports). GiG offers a toolbox of software and services which operators may purchase in full or standalone. Among its clients are small operators utilising GiG's full set of services, as well as large operators who are customers for selected products.

Following the divestment of Gaming in April 2020, Media (Affiliation) is now the largest business area accounting for more than 50% of revenue and more than 100% of earnings.

Overview of business profile



Source: Company report

Diverse product offering has its pros and cons
The diverse operational profile has, in our view, been a double-edged sword for GiG's business case. There is a clear logic to the model as having all parts of the value chain reduces the need to in-source services and the company may target all its clients' needs as a one-stop-shop.

Having many business areas and products also provides several independent revenue streams allowing the company to capture growth where and when it occurs. At the same time dividing focus over many business areas consumes a lot of resources and comes with a competitive disadvantage versus niche actors. In our view, the market has increasingly trended towards a best-of-breed structure where, unless the product is unique, market-leading pricing becomes the main variable to compete on. We think this is visible for GiG, which has mostly small partners on its platform, but has signed up large operators such as Bet365 and Kindred for its more differentiated and unique tools, such as GiG Comply. An increased focus on its strong products following the strategic review is in our view a wise direction.

A turnaround story

Winds of change are blowing – organisational changes during 2019

GiG's mission and ambition are unchanged, "Opening up iGaming to make it fair and fun for all", but after a financially challenging year in 2019 the company has undergone several organisational changes, both in operations and management. The company elected a new Chairman of the Board in 2019, Petter Nylander, former CEO of Kindred (Unibet at the time) and the former CEO and co-founder, Robin Reed, has been replaced by COO Richard Brown.

Large scale organizational changes set in motion past year

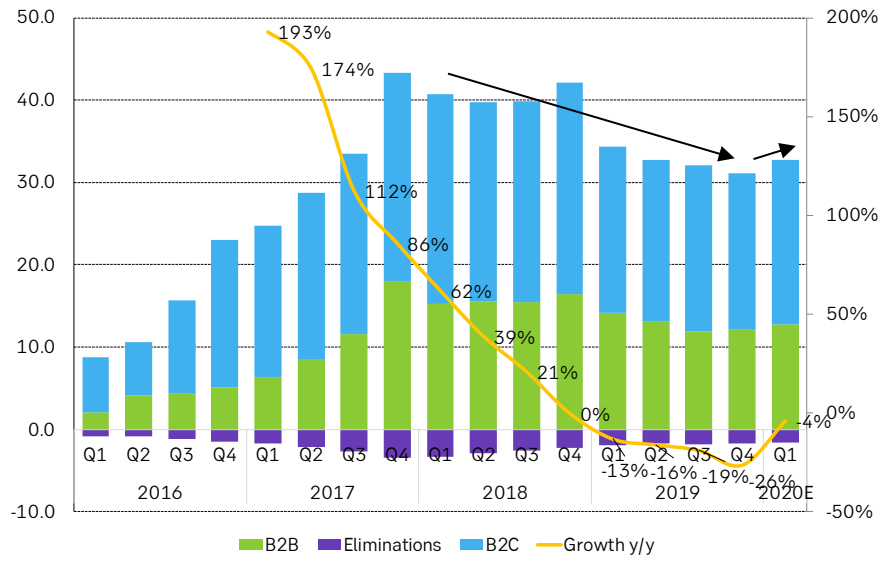
As part of the initiatives to improve operational performance, the company is addressing costs and has conducted a strategic review. As a result, the in-house casino games developer, GiG Games, was terminated in Q4 2019. GiG Sports Betting Services remains in the business unit but is looking for joint venture partners and will now also aggregate external suppliers in its offering to operators in order to complement the product and reduce cash drain. The largest change to the organisation has been the divestment of Gaming in April 2020. After having been in an investment phase over the past years the company will now shift operative focus to deliver earnings growth and cash flow, as expressed in the strategy statement in the 2019 annual report "Create shareholder value by being profitable, generate growth and strong cash flow".

Revenue setback in 2019, although profitability showed resilience

Revenue amounted to EUR 123m in 2019 following a 19% decline vs 2018. The revenue setback in 2019 mainly stemmed from the termination of a large contract in GIG Core in Q4 2018 and the closure of underperforming brands in Gaming. The B2C segment was also materially impacted by the reregulation in Sweden in the first quarter of 2019, where lower player values led to contraction of the overall market. In Q1 2020 the company managed to reverse the negative sequential trend in both B2B and B2C and decrease the y/y decline from double-digit to single-digit.

Q1 2020 showed an improvement in the negative revenue trend

Revenue split by B2B and B2C (EURm)

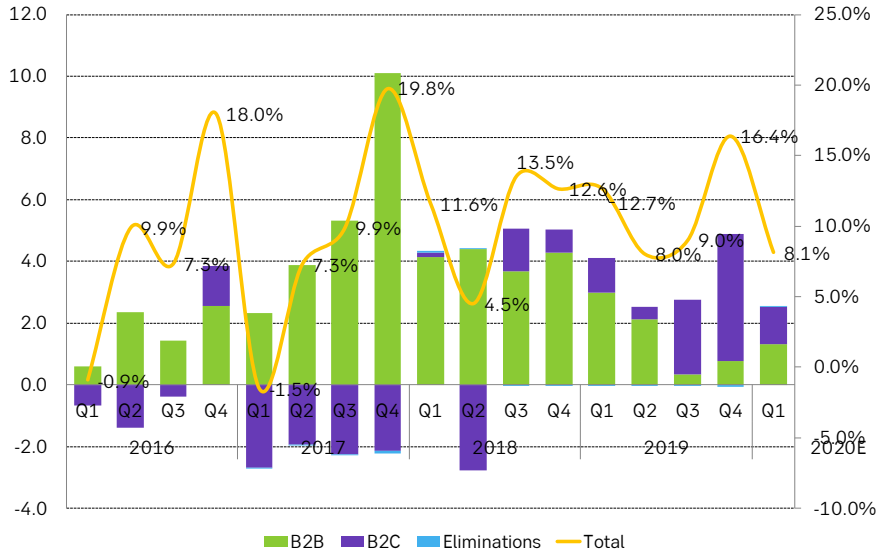


Source: SEB

A lower decline in EBITDA than in revenue lead to 90bps higher margin in 2019 than in 2018, from 10.6% in 2018 to 11.5% in 2019. This is impressive in our view considering the business model with a high share of fixed costs and high gross margin – around 80% in 2018-19 – which usually has significant operational leverage, making earnings sensitive in downturns. The main mitigating factors were improved profitability in Gaming (B2C) towards the end of the year, headcount reductions, and stable performance in Media, which has over 50% EBITDA margin, which offset increased losses in Core and Sports Betting Services.

Profitability has been volatile

Group EBITDA (EURm) and EBITDA margin



Source: SEB

The company is addressing costs to improve profitability, and in our view the scope of savings is substantial. In the latter part of 2019, the company set several initiatives in motion which have started to show effect. However, for a durable improvement in profitability, stabilisation in the revenue trend in B2B and eventually a return to revenue growth is needed, which was achieved on a sequential basis in Q1 2020 following the weakening trend as of Q4 2018 and deteriorating EBITDA which hit a bottom at EUR 0.3m in Q3 2019.

Gaming operation (B2C) sold to Betsson in April for EUR 31m

Divestment of B2C (Gaming) in 2020

In April 2020 GiG divested its B2C operation to Betsson, and the upfront payment of EUR 22.3m corresponds to a 2019 EBIT multiple of 3x, which in our view is low, but understandable in a sense that the company was in need to improve its balance sheet. The deal also encompassed a commitment for the brands to continue to operate on GiG's platform for a minimum of 30 months and a prepayment of EUR 8.7m. With the total payment of EUR 31m and total consideration valued at EUR 50m, this correspond to an EBIT multiple of 6.6x.

The deal is transformational in our view considering that it was the largest business area in GiG, accounting for 64% of revenue in 2019 and 57% of EBITDA, and GiG excluding Gaming will be a pure B2B company. The proceeds have been used to repay the bond maturing in 2020, reducing financial risk in the company, although it still has some debt remaining on the balance sheet, a SEK 400m bond maturing June 2022. We argue that the deal puts GiG in a better position to focus on the commercial development of its platform and B2B business.

Operator brands divested to Betsson Group in April

Source: Logos from company report and Betsson webpage

Increased focus on profitability and cash flow ahead

We believe that predictability in the business will improve following the divestment of Gaming, partly due to less swings in costs from marketing investments, but also due to incorporating more fixed fee pricing models for the platform product vs the previous volume related fee. The ambition to continue to increase revenue remains, but now higher focus will be assigned to profitability and cash flow.

2020 guidance of EUR 70-75m revenue and EUR 14-17m EBITDA

The company has issued guidance for the full year, EUR 70-75m in revenue and EUR 14-17m in EBITDA, which we view as credible. The guidance includes contribution from Gaming from January to April and gives an EBITDA margin of 20-23%, which is a significant step up from 11.5% in 2019 due to mix. Deducting estimated Gaming contribution from the full year guidance, it indicates EUR 45-50m in revenue and EUR 12-15m in EBITDA for B2B, translating to 27-30% EBITDA margin. Only the Media segment is currently profitable with 55% EBITDA margin in 2019, whilst sport betting services and core had a combined negative EBITDA contribution of EUR 12m. Turning these two segments to profitability will be the main swing factor for overall group profitability, supported by the cost savings and revenue growth in Core from existing customers and the addition from Betsson.

The company has capital expenditure related to investments in its technological platform and product development. This amounted to EUR 12m excluding acquisition in 2018 and EUR 10.5m in 2019. With a lot of product development having been concluded over the past year and the management addressing cost and cashflow, we expect that the capex should decrease versus 2018-19. However, considering that the company estimates B2B EBITDA of EUR 12-15m in 2020, it can be concluded that an EBITDA margin of at least 25% is needed to generate positive cash flow.

Three drivers of improvement

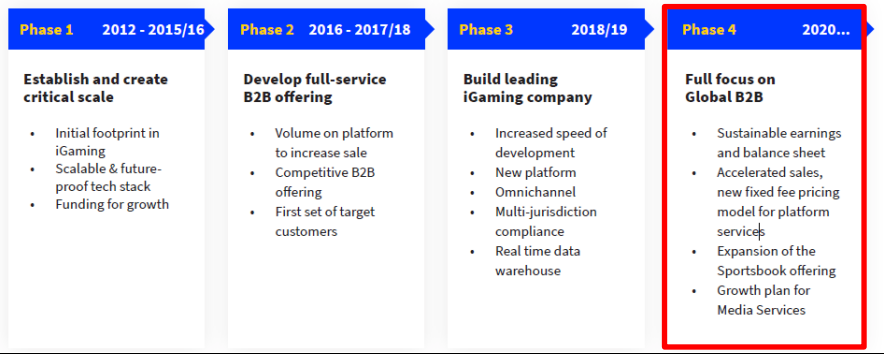
1. Greater focus on execution

Focus to change to B2B and commercialization

A new phase in the company's lifecycle

Gaming Innovation Group has over the past years transitioned from a small start-up to a competitive online gambling service provider with global reach. After a period of heavy investments, the company is now aspiring to take the company into a new phase in its lifecycle, with full focus on the commercial side of the B2B business to improve growth, earnings, and cash flow.

The company's journey and strategic focus



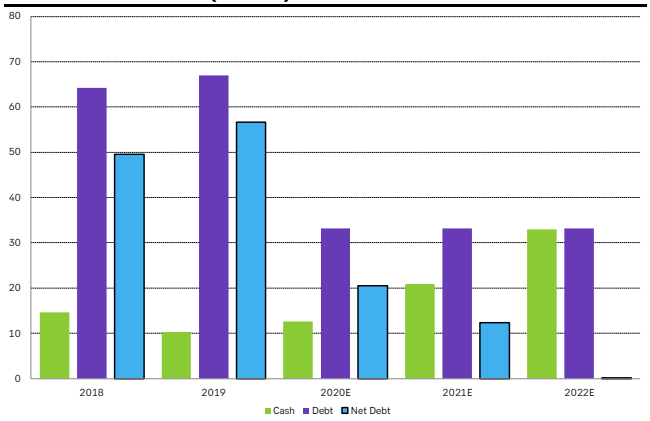
Source: Annual report 2019

The company has set a roadmap on how this will be achieved supported by several measures, accelerating sales by leveraging the product investments, growth in new markets and with new clients, and addressing the cost structure.

Financial situation has a lot to benefit from the transition

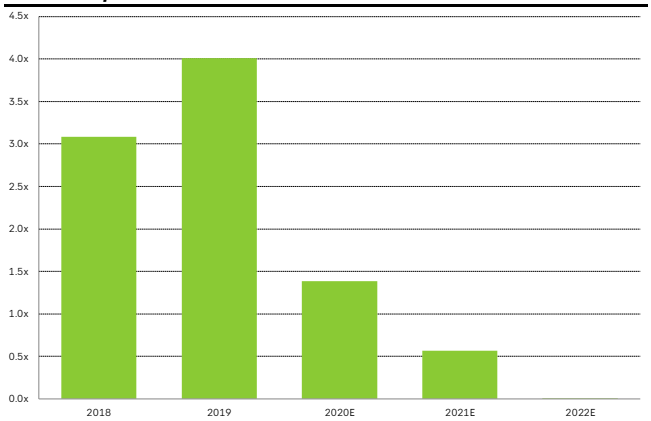
GiG has not provided any long-term financial targets, but has issued guidance for 2020 of EUR 70-75m in revenue and EUR 14-17m in EBITDA. Given the high gross margin, 98% in 2019, we believe that profitability may continue to scale beyond 2020 if the company manages to get back on the growth track. With the transition there is also scope for the company to generate decent cash flow and over time develop into a debt free, growing, and highly profitable company. The remaining outstanding bond matures in 2022 and runs at STIBOR + 9%. However, the transition could be viewed as equal amount necessity and opportunity as the liquidity has been pressured and is likely to remain so in the short-term – the cash position excl. B2C was EUR 5m in Q1/20.

Net debt overview (EURm)



Source: SEB, company report. *excluding shareholder loans

Net debt / EBITDA



Source: SEB

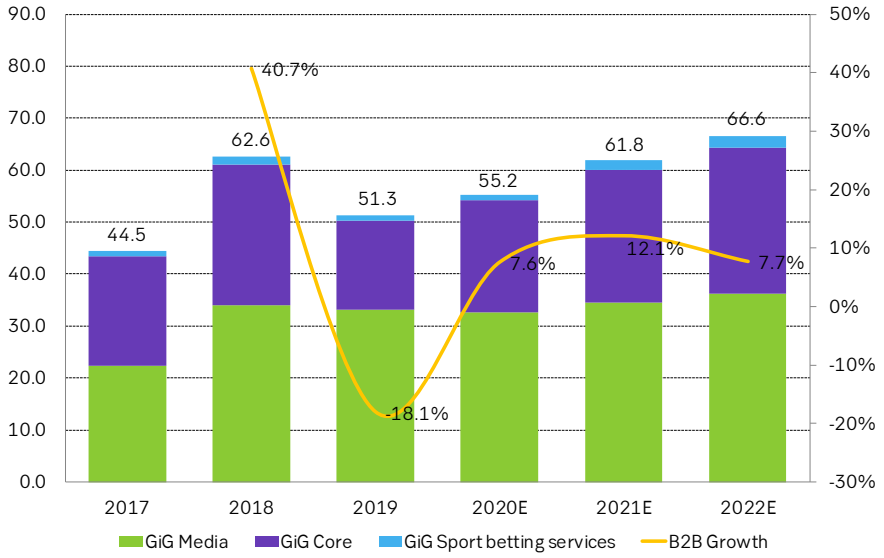
2. Existing and new growth opportunities

We expect GiG Core to have the highest growth scope

Return to growth in B2B is key for a sustainable turnaround

A sustainable return to growth in the B2B segment is a key priority for the company to remain on a positive track beyond 2020. We expect that GiG Core will be the main revenue growth driver in 2020, partly driven by the contract with Betsson, as well as the strategic contracts signed in 2018 and 2019 with Hard Rock International and SkyCity, which should ramp-up more meaningful volumes and with scope to win more platform customers. On our new forecasts, we expect revenue CAGR for the new GiG of 9% from 2019 to 2022.

Revenue per B2B segment (EURm) and B2B growth

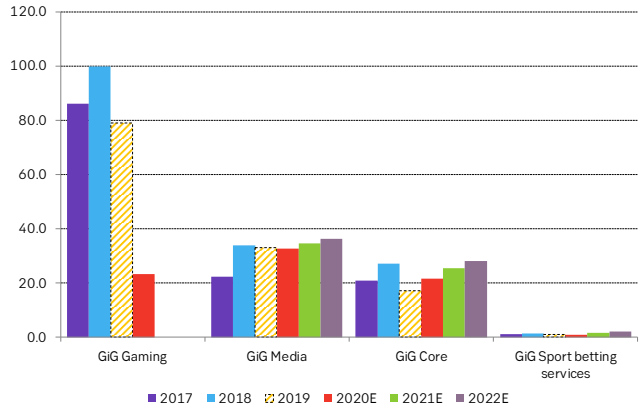


Source: SEB

Our expectations for Media are to grow close to market growth at mid-single digits in 2021-22. For 2020 we expect growth to be close to 0%, as the revenue is growing from a lower base following the decline in 2019.

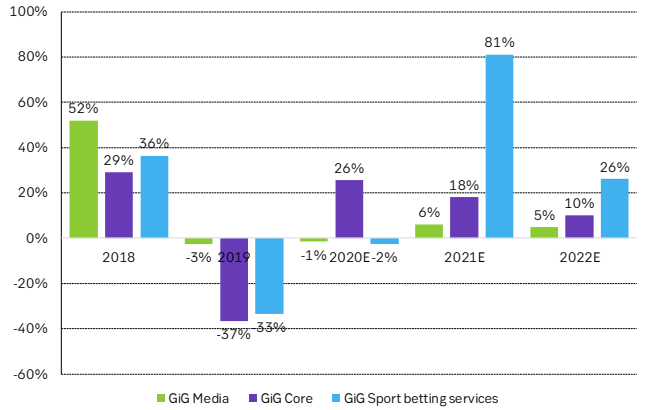
Sport Betting Services is currently a small part of the group and although we see scope for revenue to increase with the resumption of sports and with two strong sport years in 2021/22, it will not have much impact for the group.

Revenue per business segment (EURm)



Source: SEB

Growth per business segment

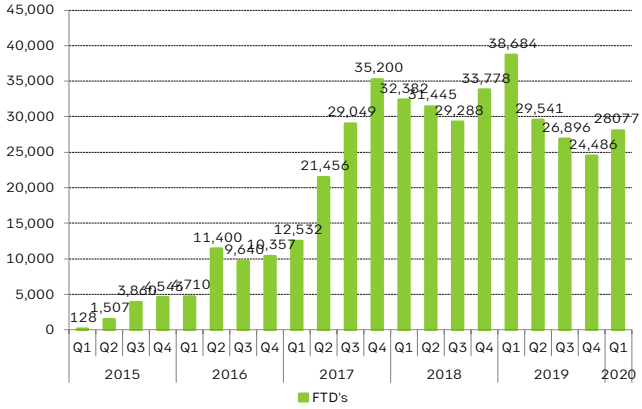


Source: SEB

Overview of GiG Media – should be able to grow with the market

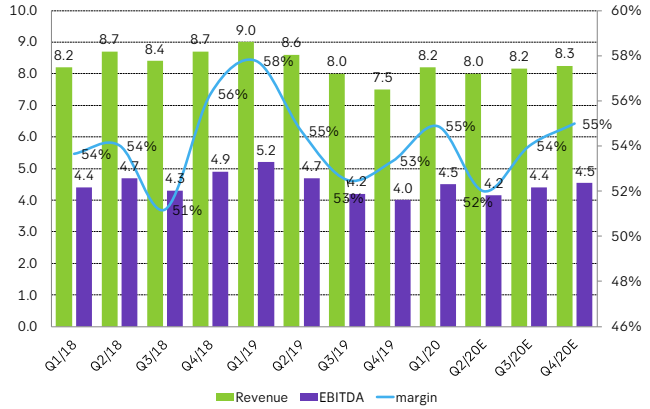
GiG Media is the company's largest segment after the divestment of Gaming, accounting for 27% of revenue in 2019 and 42% on our estimates for 2020. As with the rest of the group, Media was negatively impacted in 2019, but showed a reversal of the trend in Q1 2020. The company underlines improved FTD development and a positive effect from Google algorithm updates on several of its sites. The suspension of sports events due to the coronavirus pandemic has impacted the industry, but as casino is the main product focus, we do not expect any material negative impact. The company reported in a press release that sport accounted for 6.5% of group revenue. This mainly relates to the paid media segment, thus the concentration in Media is much larger, although reported to have been redirected to Casino. The trading update in April underlined that revenue continued at the same average pace as in Q1, and we forecast revenue to remain at ca EUR 8m per quarter throughout 2020. We recognise that there could be a more positive scenario for 2020 where the coronavirus lockdowns of physical casino act as an overall catalyst for online migration.

FTD development



Source: SEB

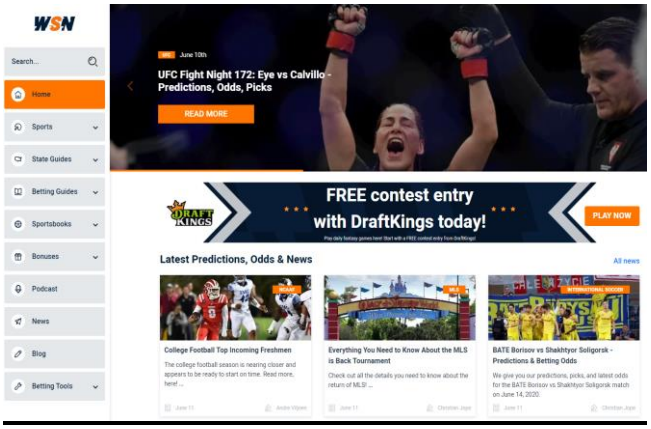
Revenue, EBITDA (EURm) and EBITDA margin



Source: SEB

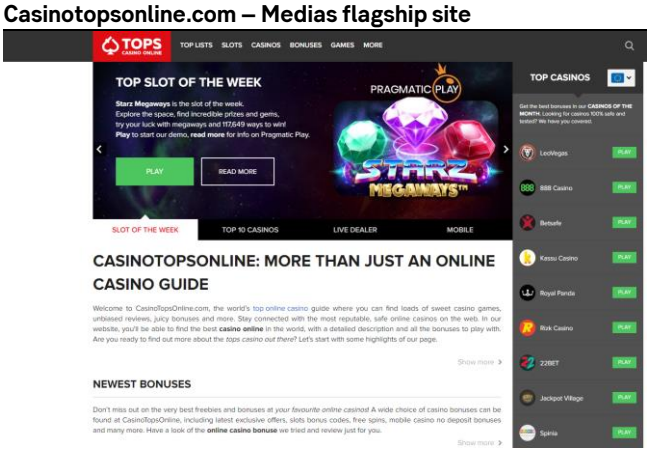
A potential key growth driver for the Media segment would be the US market, which is in a land-grab phase, similar to how Europe was over the past decade, where the operators' need and willingness to pay for new customers are high. However, the company has a small presence in the US and has not disclosed any revenues. WSN.com is GiG's US-facing affiliate portal and has a sports focus. The company's flagship casino site is Casinotopsonline.com, which operates globally and is translated to 10 different local languages.

WSN.com



Source: WSN.com

Casinotopsonline.com – Medias flagship site

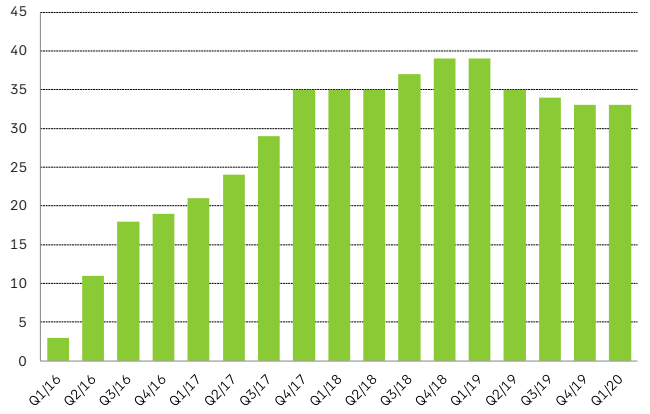


Source: Casinotopsonline.com

GiG Core holds the largest turnaround potential

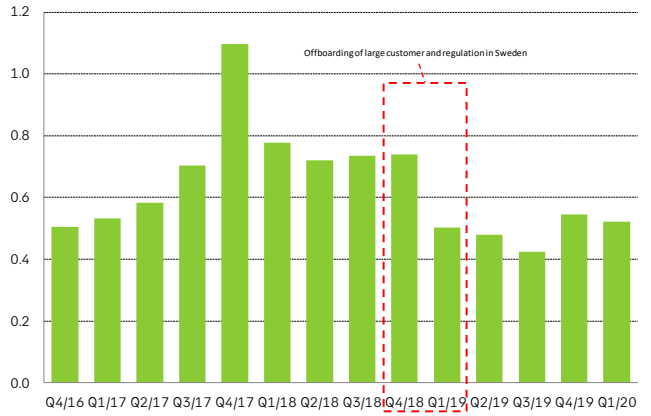
GiG's platform provides the partners with the technical tools to operate their online gambling sites in a scalable and cost-efficient manner, including player account management systems, front-end and analytical tool sets and a wide variety of third-party games and payment options. The company also offers managed services and compliance tools. Target customers are both new and existing online operators, but also land-based operators seeking a partner for online expansion. Following the termination of a larger platform customer in Q4 2018, revenue in Core has been on a negative trend. The impact was further enhanced by contraction in the Swedish market after the regulation, taxation, and lower player values. In our view, it is visible that some of the platform customers have been challenged as revenue per customer and revenue in the segment has decreased more than the number of clients.

Number of clients on GiG platform



Source: SEB

Annualised revenue per customer per quarter (EURm)

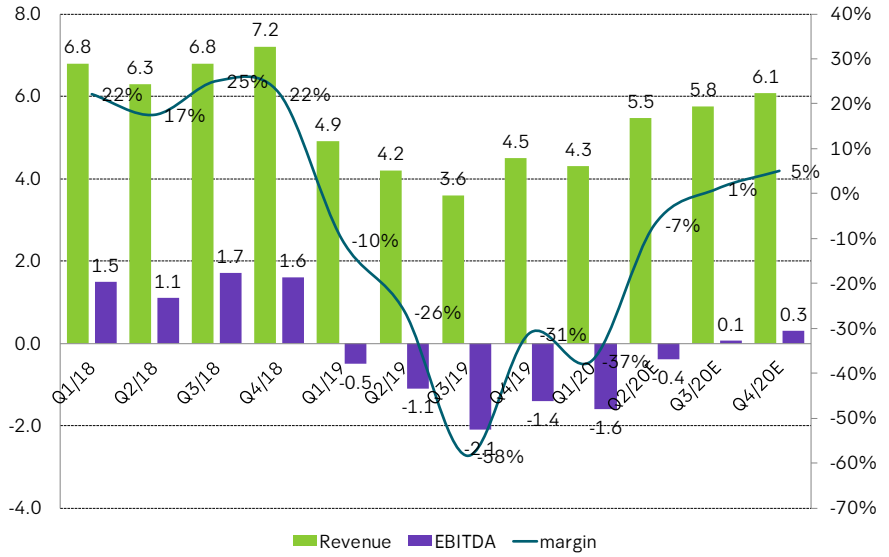


Source: SEB

We expect a pace change to follow in Q2 2020 as the company will receive the premium platform fee from Betsson related to the change of ownership of GiG's operator brands and the company communicated that it had six brands in the integration pipeline, including existing customers to be launched in new markets. On our forecasts, we expect revenue to improve sequentially through 2020 with a return to y/y growth in H2.

Platform business has high operational leverage

Revenue, EBITDA (EURm) and EBITDA margin



Source: SEB

Two tier 1 contracts set to enter a more mature stage

Strategic contracts still to make an imprint on financials

As it is difficult to have a view on the scope of growth for the client base, a key growth enabler for Core is for the company to sign new customers to its platform. However, GiG signed two strategic customers in 2018 and 2019 which have potential to develop into large contracts with meaningful revenue contribution, Hard Rock International in the US and SkyCity Entertainment Group in New Zealand (publicly listed).

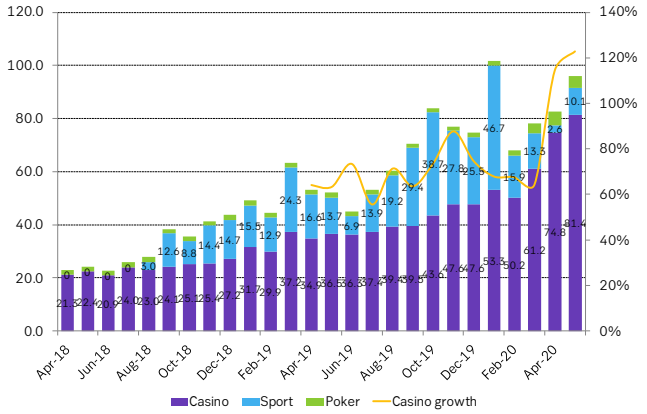
Hard Rock New Jersey revenue per product USDm

Source:

In early 2018 the company signed a platform agreement with Hard Rock International for its online casino business and was the first agreement the company signed in the US. Later in 2018 the company signed an agreement to provide Hard Rock with its omni-channel sportsbook solution and Hard Rock has also entered Iowa in 2020.

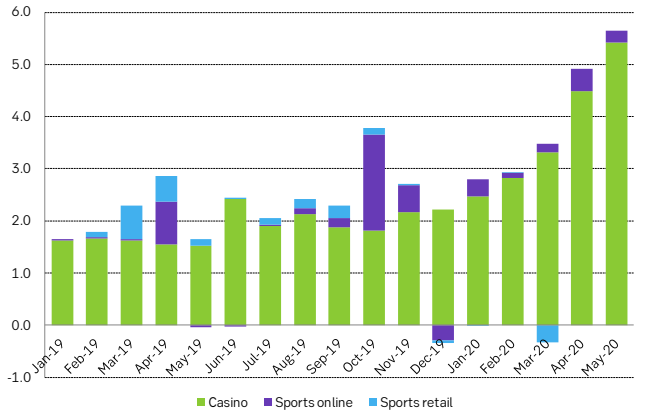
When the contract was won, GiG underlined that it had the potential to develop into the largest platform agreement over time, a view we do not believe has changed, although it is still to make an imprint on the numbers. So far revenue for Hard Rock in New Jersey has been somewhat disappointing in our view, and not seen the same strong growth trend as the overall market until just recently. Given that Bet365 and Kindred is included in the Hard Rock licence as of Q3 2019, it is unclear which company accounts for the revenue uptick over the last two quarters. However, it is still early days for online gambling in the US and time for Hard Rock to ramp-up volumes and expand through more states which would then be beneficial for GiG.

New Jersey online gambling market (USDm)



Source: SEB, New Jersey Division of Gaming Enforcement

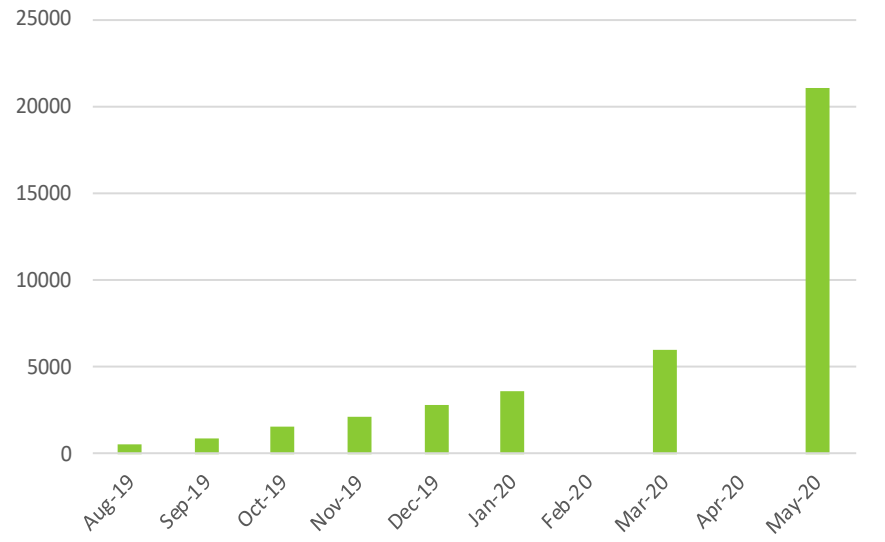
Hard Rock New Jersey revenue per product (USDm)



Source: SEB, New Jersey Division of Gaming Enforcement

The contract with SkyCity also encompasses Managed Services and is a fairly large contract in terms of service scope for GiG. SkyCity is a listed company in New Zealand and Australia and is New Zealand's largest leisure company with physical casinos in both countries. The online site was launched in August 2019 and according to the company it has seen encouraging customer sign up, which accelerated materially during the spring and the online business is reported to have been profitable in April and May.

Number of customers on Sky City online casino

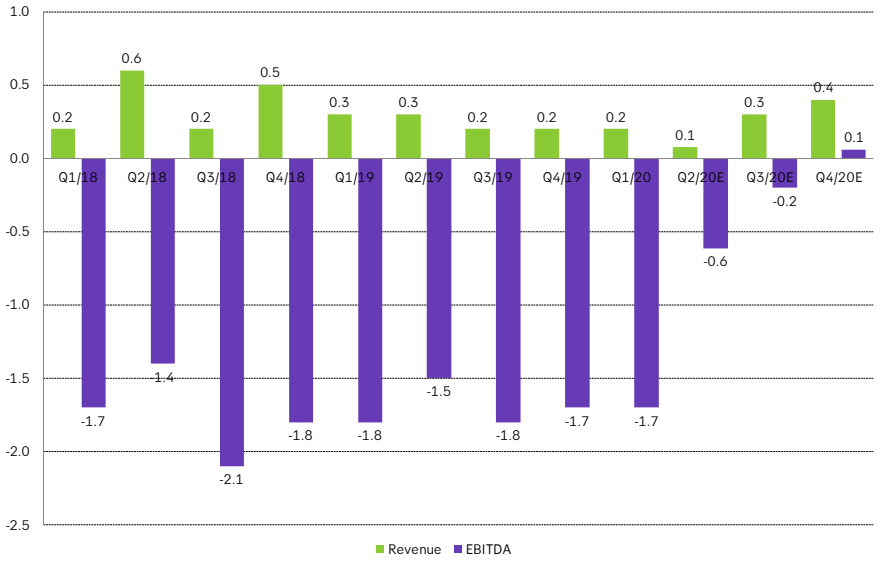


Source: SkyCity quarterly result presentation and Covid19 trading update

Sport Betting Services more of an option in our view

GiG Sport Betting Services has not yet seen the growth trend the company hoped for and the focus in the short-term is instead to reduce losses via cost savings and achieve breakeven by Q3 2020. We believe the revenue should be set to improve in the autumn when sports resume, but to get meaningful contribution to group financials it will need to sign more customers.

Sport betting services revenue and EBITDA (EURm)



Source: SEB

Targets EBITDA break-even in sports betting services in Q3 20

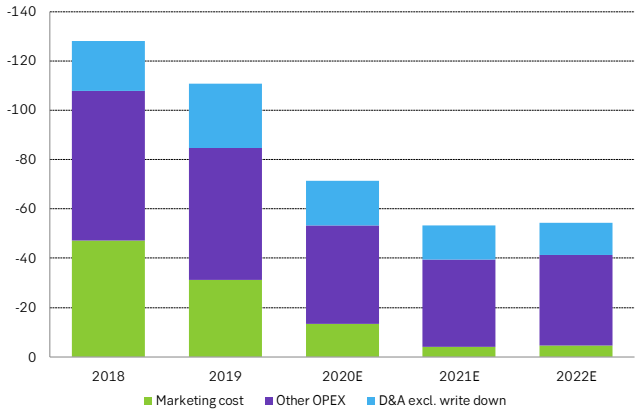
As part of the strategic review the company is assessing potential joint ventures with external partners for its sportsbook. The company has made its platform sportsbook-agnostic so that it can provide third party sportsbooks to its customers. In our view this is a sound idea as it would not really cannibalise any existing revenue and the company may reduce investment into product development, which has so far been very costly. A partnership has been signed with Betsson, but the company will also pursue additional third-party partners to support a broad offering to its platform customers. In our view a divestment of the sport betting operation or partial discontinuation would not be illogical if the company managed to find good fit between its partners and platform client base.

3. Cost savings set in motion

We forecast opex to decrease to EUR 50m by 2021 vs EUR 65m 2019

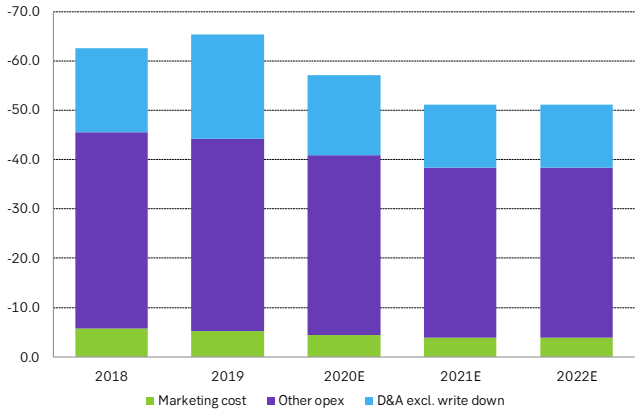
The company has set out to improve the cost structure, and given the gross margin of 98% in 2019, it is the fixed cost based that will be addressed and actions taken include headcount reductions, restructuring the sportsbook, and an IT migration, apart from the effect of divesting Gaming. Most of the impact from the initiatives are expected to materialise in the P&L as of Q3 2020 and will be a major driver for earnings improvement. We expect that in 2021 opex will be around 20% lower in GiG B2B vs 2019 at around EUR 50m.

Main operational cost items, GiG including B2C



Source: SEB

Main operational cost items, GiG B2B

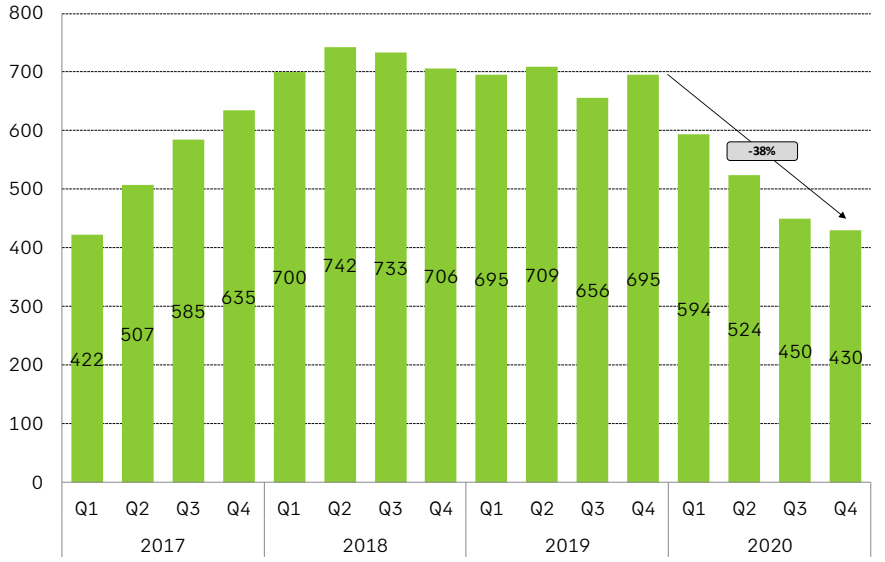


Source: SEB

Several initiatives running in parallel

FTE reduction has already started to have an effect, as personnel costs amounted to EUR 8.8m in Q1 2020 which was a 7% decline vs EUR 9.4m in Q4 2019. The company's target is to reduce headcount to 430 by year-end 2020, a reduction of 265 vs 695 in Q4 2019 or around 40%. This will be partly achieved via the divestment of Gaming, which in Q1 2020 had 135 people, and some of these will have been transferred directly in April and some will remain with GiG for an initial transition period and invoiced at cost.

GiG FTE over time and forecast



Source: SEB, GIG quarterly reports

Migration of the IT infrastructure to a hybrid model was initiated in 2019 and is scheduled to be completed in Q3 2020, and result in an annual cost saving of EUR 3.5m when fully completed. Management reports that the project is progressing well and that tech costs in Q1 2020 were reduced by 11% q/q, but the material part of the savings will be set to come in the second half of 2020.

In September 2019 the company took the decision to stop investments in its internal game studio, GiG Games, in order to reduce opex and focus recourses to other areas. The four games which were launched will remain active, but no further development will be done. Closing the Games studio is reported to save EUR 0.75m per quarter. A restructuring of the sportsbook was also initiated in 2019, estimated to lead to around EUR 400m in monthly savings when completed.

We expect that EBIT margin will converge towards the EBITDA margin as part of the amortisation from the affiliate assets acquired in 2017 will be completed. In Q1 the company amortised EUR 0.9m related acquired customer contracts which is amortised over three years. However, domains and SEO are amortised over eight years and will remain.

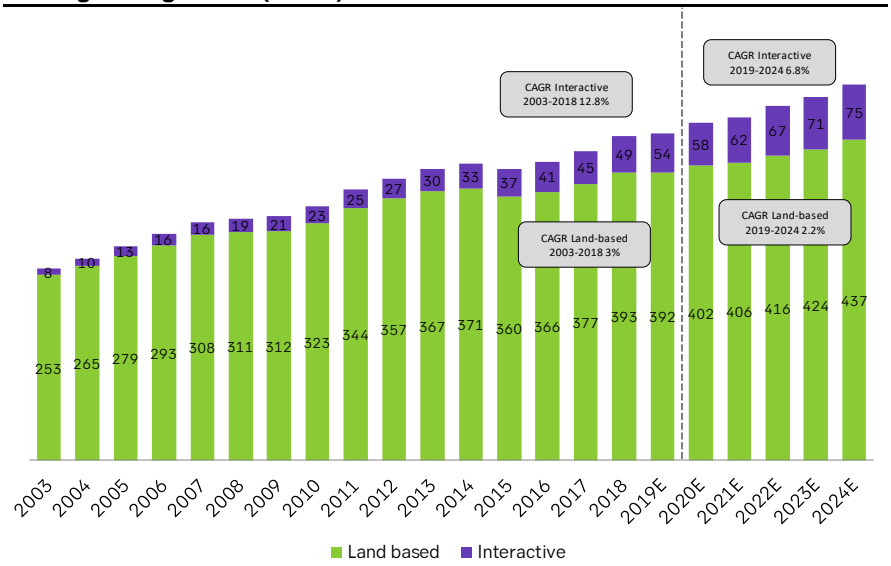
Market outlook

Online Gambling remains a growth market

Supported by a growing underlying online gambling market, there is ample growth potential for all business segments, in our view. Online Gambling has seen a strong growth trend over the past one and a half decade, with a CAGR of 12.8% between 2003 and 2018 according to H2GC data. As some of the early adopter markets in Northern Europe are maturing, growth is expected to decelerate slightly ahead with estimated CAGR of 6.8% towards 2024.

Online Gambling remains a growth market

Global gambling market (EURm)



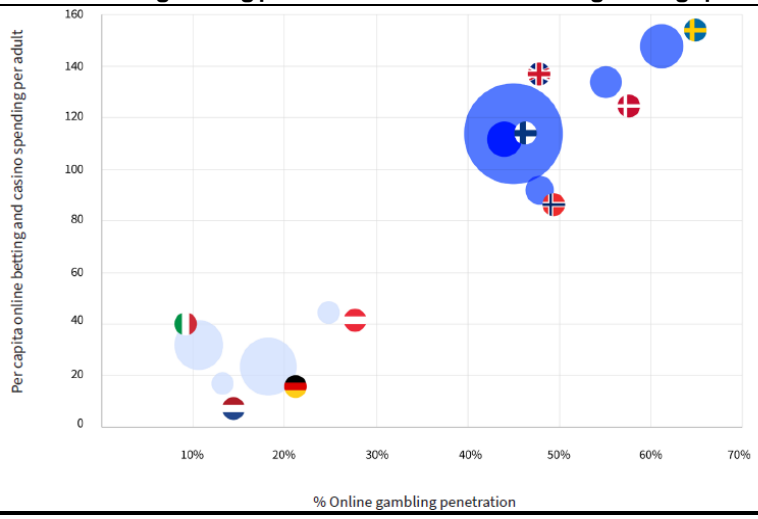
Source: H2GC as presented in GiG Annual report 2019.

Geographical profile will affect growth potential

With an estimated 12% of global gambling being online in 2019, the market is still young and the shift from land based to online may continue for a long time, and in our view market growth rates may potentially accelerate when certain markets regulate, such as the US and Latin America where regulatory progress has been noted over the past year. In the Nordics and the UK, online gambling penetration has come the furthest and is estimated to be around or above 50%, based on data from GiG and H2GC, whilst several of the Western and Central European markets have online gambling penetration around or below 25%.

Online penetration varies in different markets

Overview of online gambling penetration and relative online gambling spend



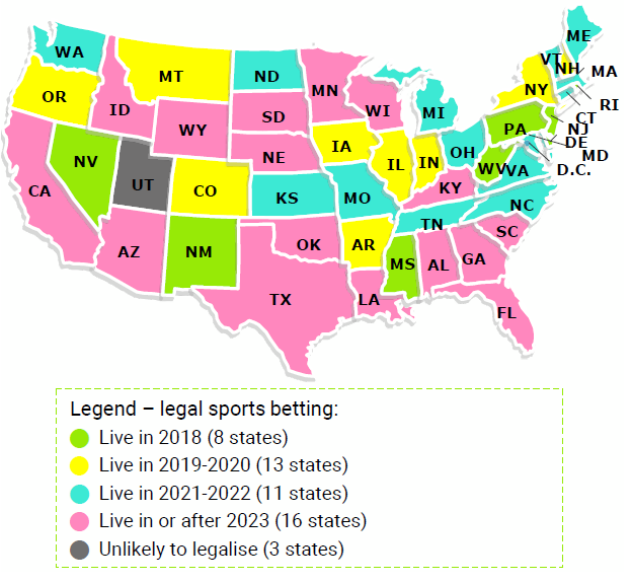
Source: Company annual report 2019, based on H2GC and company analysis.

USA have potential to become the world's largest iGaming market

Brief view on the US – a future growth market

The US is expected to become a new growth frontier as legalisation of land-based sports betting is currently acting as a trailblazer for the online gambling industry since the repeal of PASPA in 2018. With its large population, we expect the US to grow into one of the world's largest online gambling markets over time. The regulatory outlook for the US is still quite opaque given that the decisions to regulate lies with each individual state and a we should expect it to take time for legislators to find terms that stakeholders can agree upon, but over the long term we expect that online casino regulation should catch up with the sport betting regulation and both online sports betting and online casino to become available in the majority of US states, so far betting has now been implemented or approved in roughly 20 states.

Overview of the US sports betting landscape



Source: GVC capital markets day

Draft Kings, the US fantasy sport operator, estimates that the online gambling market could be worth USD 18bn, assuming 65% of the population get access to online sports betting and 30% get access to online casino. For comparison, the UK online gambling market amounted to almost USD 7bn in 2019 according to the UK Gambling Commission underlining how the US market hold high potential.

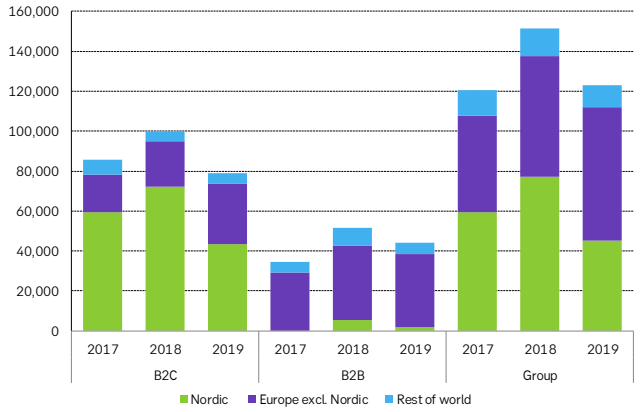
Gaming Innovation Group's geographical profile

GiG does not disclose its geographical revenue split per country, but from the annual report we can get a broad view of what regions the B2C and B2B business is exposed to. The Nordics have historically been the most important region for the B2C operation whilst Europe excluding the Nordics has been the main market for B2B.

Looking the numbers, it is visible how the revenue drop in 2019 is to a large degree related to the B2C segment's Nordic revenue i.e. the impact from reregulation in Sweden and a slow market in Norway. With the divestment of Gaming, the revenue profile in the "New GiG" will be less Nordic and more Global, although it will shift somewhat more towards the Nordics than the 4% in B2B 2019 as it will receive platform fees from its former owned Nordic operator brands.

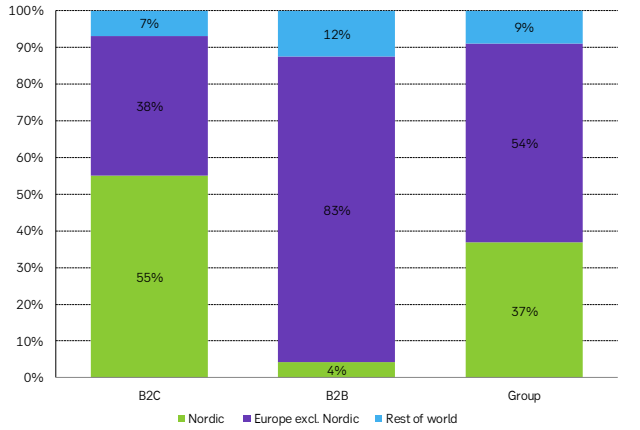
Overall, we argue that the geographical profile is in a good position to capture growth in developing markets in Europe and Americas/Oceania offsetting slower growth in maturing Nordic market markets which has earlier been a challenge in the overall growth profile.

GiG, Revenue per region and business area, EUR (000)



Source: SEB

GiG, Revenue per region as % of total in 2019



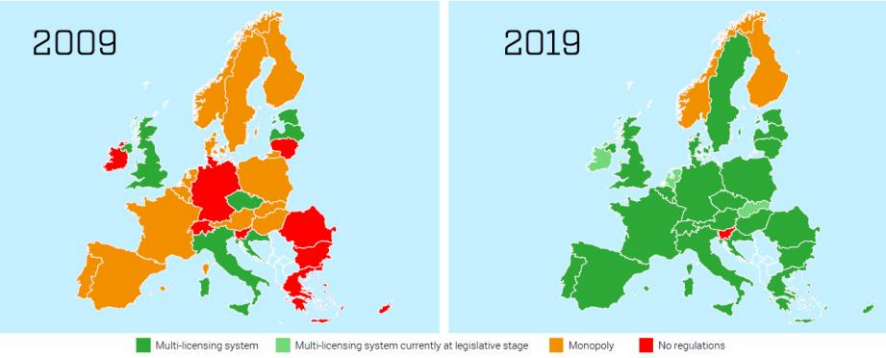
Source: SEB

Regulation will always be an important variable

Regulatory implementations have been the main theme for the online gambling industry in Europe over the past decade. This has made stock picking slightly more challenging as deep diving into respective cases' geographical profile is key to identify risks for pending revenue and earnings pressure and growth opportunities. Regulatory implementations have come a long way in Europe with most countries now having some type of licence system in place, with mainly the Nordics lagging somewhat with monopolies still in place in Norway and Finland. Below is an overview of the changes over the past decade.

Much of the regulatory uncertainty in EU is now in the past

Overview of European online gambling regulations

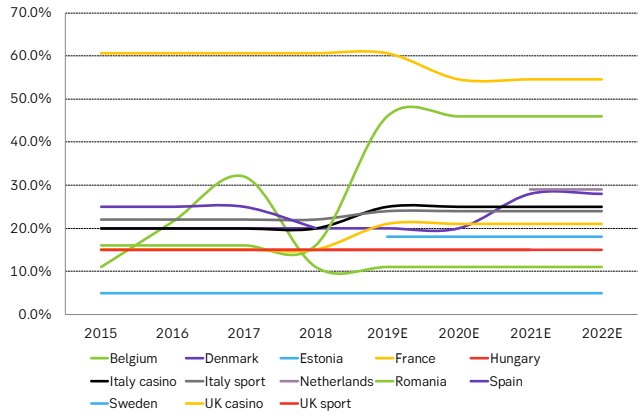


Source: Kindred Q4 2019 presentation, data from European Betting and Gambling Association.

Norway still lacks legislation and is a key market for GiG B2C, and the company will be sensitive to regulatory changes there even after the divestment to Betsson as it will become a platform client and the same is true for Finland. The regulation in the Netherlands, scheduled for 2021/22, is expected to be one of the major regulatory events for the online gambling industry in Europe in the short-term. We believe that Gaming Innovation Group has little exposure to Netherlands, and it will likely pass by without any implications for the company and its revenue and profitability. Instead, it could turn out to be an opportunity to sign new clients to the B2B products. Germany is in the process of drafting nationwide gambling regulation, and contrary to Kindred's definition as viewed in the chart above, we argue it is not yet a fully licensed market as online gambling mandates today differ between the different states. Changes in regulations in Germany could also come to effect GiG B2B.

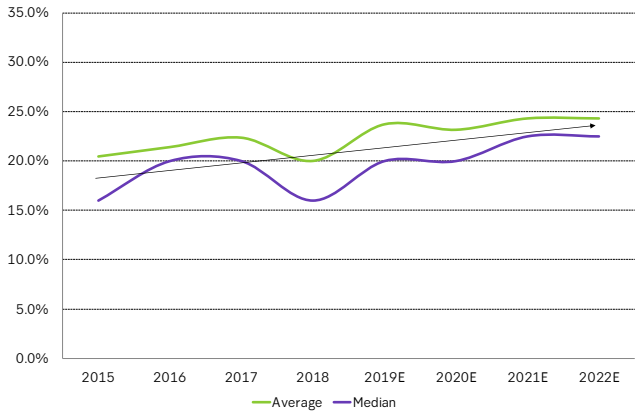
Looking at betting duties in different jurisdictions and the changes that have occurred over time, we recognise that betting duties appear to be converging towards the average, currently slightly above 20%, but that the average over time has been increasing as authorities have been more prone to raising the duty than lowering it. We expect this trend to continue in the future, with tightening of consumer protection and marketing mandates as a potential combination.

Online gambling taxes in selected EU countries



Source: Complied by SEB from various sources, regulator web pages, European Betting and Gambling Association.

Average and median tax rate over time



Source: SEB

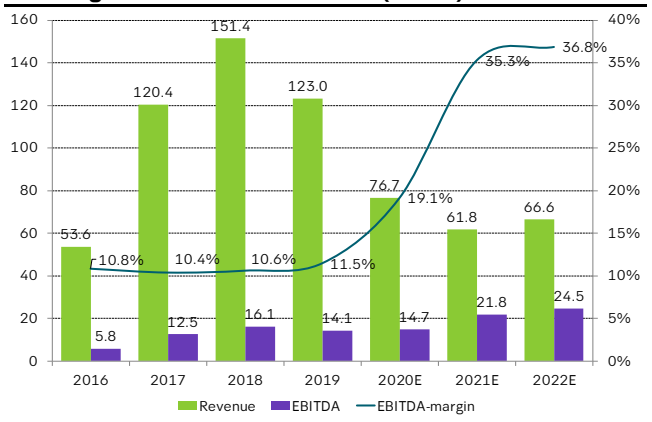
Estimates

Margin expansion main earnings driver

Potential for high profitability in the new Gaming Innovation Group

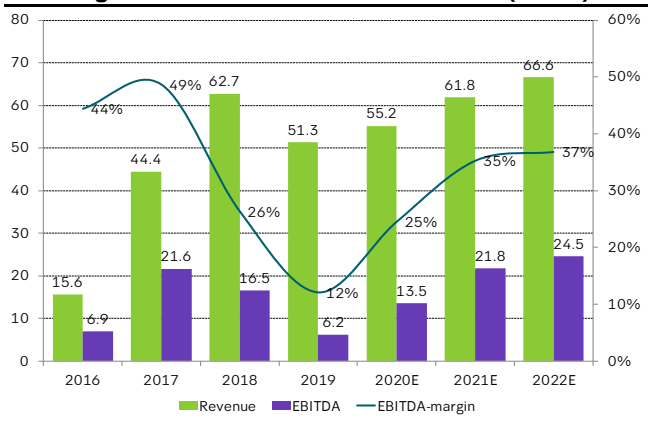
We expect that the new Gaming Innovation Group has the potential to have significantly higher profitability than the old company, as underlined by the full year 2020 guidance of implied EBITDA margin of 25-30%. With a successful turnaround of Core and Sports Betting Services in 2020, we see potential for group margin to expand up to and beyond 35% in 2021-22.

Including B2C in historical numbers (EURm)



Source: SEB

Excluding B2C in historical numbers "New GiG" (EURm)

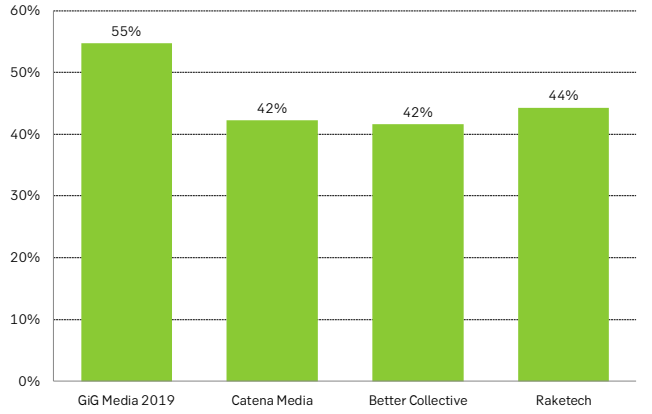


Source: SEB, excluding eliminations.

The Media Segment reported 55% in EBITDA margin in 2019, which is high compared with current profitability in other listed affiliates. In our view, it reflects the company's strong proposition and cost efficiency, and we think it should be durable if the positive revenue trend persists.

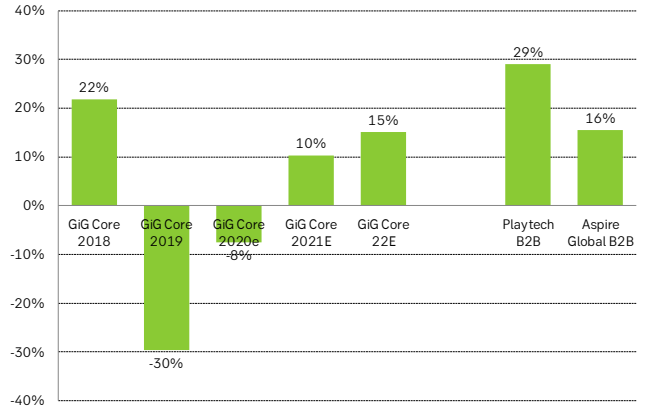
The profitability in the Core will depended on how well the revenue scales. The business unit had EBITDA margin of 22% in 2018, which we think could be achievable over time. We expect a recovery to 10% in 2021 and 15% in 2022, which is at the low-end versus the platform business for B2B peers Playtech and Aspire Global at 29% and 16%, respectively.

GiG Media EBITDA margin vs peers, 2019



Source: SEB

EBITDA margin Core and platform peers 2019



Source: SEB, company reports

Forecast summary

We expect that 2020 will be a transformational year characterised by operational changes and efforts to improve the cost base and that as of Q3 more of the efforts will materialise in the P&L, with full effect in 2021. For 2020, our estimate of EUR 76.7m is slightly above the full year revenue guidance of EUR 70-75m, while for EBITDA our estimate of EUR 15.3m is within the EUR 14-17m guidance range, corresponding to 20% EBITDA margin. Note that this guidance includes contribution from B2C from January to April, and if we exclude B2C the corresponding estimates are EUR 55m and EUR 14m, respectively, corresponding to 25% EBITDA margin.

Our outlook mainly depends on the company being successful in its effort to reduce costs and reach breakeven in Sport Betting Services during the year and to reverse the negative trend in Core, where we expect a step change in Q2 supported by the agreement with Betsson. In our forecasts for Q2 we include EUR 3.3m in revenue and EUR 0.5m EBITDA contribution from Gaming, which was divested mid-April. The company has not guided for restructuring charges and we have not assumed any in our estimates, other than EUR 1.1m to the financial net from the redemption of the bond, although we recognise the probability this might be the case. With an improved cost base and return to growth in Core we find potential for the company to generate substantially better financial performance. We forecast revenue CAGR for the "New GiG" of 9% from 2019 to 2022 and for the EBITDA margin to expand by 10pp to 35% in 2021 and 37% in 2022.

Forecast summary

EURm	Q1/19	Q2/19	Q3/19	Q4/19	Q1/20	Q2/20E	Q3/20E	Q4/20E	2018	2019	2020E	2021E	2022E
GiG Media													
Revenue	9.0	8.6	8.0	7.5	8.2	8.0	8.2	8.3	34.0	33.1	32.6	34.6	36.3
EBITDA	5.2	4.7	4.2	4.0	4.5	4.2	4.4	4.5	18.3	18.1	17.6	19.0	20.0
margin	58%	55%	53%	53%	55%	52%	54%	55%	54%	55%	54%	55%	55%
GiG Core													
Revenue	4.9	4.2	3.6	4.5	4.3	5.5	5.8	6.1	27.1	17.2	21.6	25.5	28.1
EBITDA	-0.5	-1.1	-2.1	-1.4	-1.6	-0.4	0.1	0.3	5.9	-5.1	-1.6	2.6	4.2
margin	-10%	-26%	-58%	-31%	-37%	-7%	1%	5%	22%	-30%	-8%	10%	15%
GiG Sport betting services													
Revenue	0.3	0.3	0.2	0.2	0.2	0.1	0.3	0.4	1.5	1.0	1.0	1.8	2.2
EBITDA	-1.8	-1.5	-1.8	-1.7	-1.7	-0.6	-0.2	0.1	-7.0	-6.8	-2.5	0.2	0.3
margin	-600%	-500%	-900%	-850%	-850%	-817%	-67%	15%	-467%	-680%	-252%	10%	15%
GiG Gaming													
Revenue	20.2	19.6	20.2	19.0	20.0	3.3	0.0	0.0	99.8	79.0	23.3		
EBITDA	1.1	0.4	2.4	4.1	1.2	0.5	0.0	0.0	-0.5	8.0	1.7		
margin	5%	2%	12%	22%	6%	14%	0%	0%	-1%	10%	7%		
Eliminations													
Revenue	-1.91	-1.77	-1.85	-1.75	-1.58	-0.3	0.0	0.0	-11.1	-7.3	-1.8		
EBITDA	0.0	0.0	0.0	-0.1	0.0	-0.5	0.0	0.0	0.1	-0.2	-0.5		
B2B													
Revenue	14.2	13.1	11.8	12.2	12.7	13.5	14.2	14.7	62.6	51.3	55.2	61.8	66.6
EBITDA	2.9	2.1	0.3	0.9	1.2	3.2	4.3	4.9	17.2	6.2	13.5	21.8	24.5
margin	20.4%	16.0%	2.5%	7.4%	9.4%	23.4%	30.0%	33.3%	27.5%	12.1%	24.5%	35.3%	36.8%
(Including B2C in historicals)													
Revenue	**32.4**	**31.0**	**30.2**	**29.4**	**31.1**	**16.6**	**14.2**	**14.7**	**151.4**	**123.0**	**76.7**	**61.8**	**66.6**
COGS	-6.4	-6.6	-6.7	-4.4	-6.8	-1.6	-0.4	-0.4	-27.4	-24.1	-9.1	-1.6	-1.8
Gross profit	**26.0**	**24.4**	**23.6**	**25.0**	**24.3**	**15.0**	**13.9**	**14.3**	**124.0**	**98.9**	**67.5**	**60.2**	**64.8**
Marketing cost		-8.9	-7.1	-6.5	-8.9	-2.3	-1.0	-0.9	-47.2	-31.1	-13.2	-3.9	-4.3
Marketing cost/revenue		-29%	-23%	-22%	-29%	-14%	-7%	-6%	-31%	-25%	-17%	-6%	-6%
Other OPEX	-13.3	-13.0	-13.7	-13.7	-12.9	-9.6	-8.6	-8.5	-60.7	-53.7	-39.6	-34.5	-36.0
Other OPEX/revenue		-42%	-45%	-46%	-41%	-58%	-61%	-58%	-40%	-44%	-52%	-56%	-54%
EBITDA	**4.1**	**2.5**	**2.7**	**4.8**	**2.5**	**3.1**	**4.3**	**4.9**	**16.1**	**14.1**	**14.8**	**21.8**	**24.5**
EBITDA (%)	13%	8%	9%	16%	8%	19%	30%	33%	10.6%	11.5%	19.3%	35.3%	36.8%
EBIT	**-2.5**	**-4.0**	**-6.7**	**-42.5**	**-2.9**	**-1.9**	**0.2**	**1.3**	**-17.6**	**-55.7**	**-3.3**	**8.2**	**12.3**
EBIT (%)	N/A	N/A	N/A	N/A	N/A	N/A	1%	9%	-12%	-45%	-4%	13%	18%
NI	**-2.9**	**-6.1**	**-8.4**	**-47.3**	**-2.6**	**-3.3**	**-0.4**	**0.6**	**-22.6**	**-64.7**	**-5.6**	**5.0**	**8.7**
EPS	-0.03	-0.07	-0.09	-0.53	-0.03	-0.04	0.00	0.01	-0.25	-0.72	-0.06	0.06	0.10

Source: SEB

Valuation

SOTP indicates value of SEK 13.0

Valuation Summary			
Share price (SEK)	5.6		
Market Capitalization (SEKm)	504		
SOTP valuation	13.0		
Mid-point DCF value (SEK)	17.3		
	Low	High	Mid-point
DCF valuation range	14.1	17.3	21.0
Implied multiples at SOTP SEK 13.0	**2020E**	**2021E**	**2022E**
EV/EBITDA	8.9x	6.0x	5.4x
EV/EBIT	-39.5x	16.1x	10.7x
PER	-16.0x	22.0x	12.7x

Source: SEB

Sum-of-the-parts overview

As the businesses are in different stages of their life cycles and have different growth and earnings potential, we argue that an SOTP valuation is the fairest method to value Gaming Innovation Group. Our SOTP calculation underlines an intrinsic value of SEK 13.0 per share which is considerably higher than current share price of SEK 5.5. We believe this implies that the market does not account for a successful turnaround in Core and Sport Betting Services and should leave plenty of revaluation potential in the event of improved performance.

Sum of the parts valuation

(EURm)	2019	2020E	2021E	EV/EBITDA SEB 2020E	EV/Sales 2020E	EV Contribution 2020E
GiG Media						
Revenues	33.1	32.6	34.6			
EBITDA	18.1	17.6	19.0	**5.0x**		**88.0**
GiG Core						
Revenues	17.2	21.6	25.5			
EBITDA	-5.1	-1.6	2.6		**2.0x**	**43.2**
GiG Sport betting services						
Revenues	1.0	1.0	1.8			
EBITDA	-6.8	-1.9	0.2	**0.0x**	**0.0x**	**0.0**
Enterprise Value						**131**
NIBD YE 2020E						21
Equity value						**111**
NOS						90
Equity value / share (EUR)						**1.23**
EURSEK						10.5
Equity value / share (SEK)						**13.0**

Source: SEB

We value GiG Media at 5x EBITDA, which is close to the median of listed affiliate peers currently at 4.3x for 2021E, although we recognize very large spreads in the different companies with Better Collective at 11x and Raketech at 4.3x. We value Sports Betting Services at 0 given our expectation of very limited future contribution to earnings. The currently loss-making GiG Core is valued at 2x sales as we have a positive outlook on future earnings trend, and this corresponds to 15x 2022E EBITDA for the business division. The company has an outstanding bond of SEK 400m at STIBOR +9% and we expect a gross cash position of EUR 13m at the year-end leading to a net debt position of EUR 20m.

Implied negative value for GiG Core and Sports Betting Services

Based on a sensitivity analysis, GiG Media alone could justify a value of SEK 7.9 per share if valued at 5x EV/EBITDA 2020E. As the share is currently trading below this, it implies that investors are assigning a negative value to GiG Core and Sports Betting Services when the share price trades below this level. At a share price of SEK 5.5 this implied value is roughly EUR -20m.

SOTP sensitivity table

EV/EBITDA GiG Media	Value of GiG Core + Sports Book EURm						
	-20	0.0	20	40	60	80	100
2.0x	-0.6	1.7	4.1	6.4	8.7	11.1	13.4
3.0x	1.5	3.8	6.1	8.5	10.8	13.1	15.5
4.0x	3.5	5.9	8.2	10.5	12.9	15.2	17.5
5.0x	5.6	7.9	10.2	12.6	14.9	17.2	19.6
6.0x	7.6	10.0	12.3	14.6	17.0	19.3	21.6
7.0x	9.7	12.0	14.3	16.7	19.0	21.3	23.7
8.0x	11.7	14.1	16.4	18.7	21.1	23.4	25.7
9.0x	13.8	16.1	18.5	20.8	23.1	25.5	27.8
10.0x	15.8	18.2	20.5	22.8	25.2	27.5	29.8

Source: SEB

DCF - Midpoint value of SEK 17.6

For reference, our DCF model with 10% WACC yields a mid-point value of SEK 17.6 and a range of SEK 14-21 if we adjust our base case EBITDA margin and growth forecasts by +/- 2pp. Based on the current share price of ca SEK 6, the market is assigning an implied cost of equity of ca 25%. A higher risk premium than main peers is probably justified considering the negative operational trend and that the company is a small cap, although an implied 25% CoE in our view appears high.

DCF Summary

DCF valuation (SEKm)		**Weighted average cost of capital (%)**	
NPV of FCF in explicit forecast period	862	Risk free interest rate	5.0
NPV of continuing value	927	Risk premium	5.0
Value of operation	**1,790**	**Cost of equity**	**10.0**
Net debt	214	**After tax cost of debt**	**8.9**
Share issue/buy-back in forecast period	-		
Value of associated companies	-	**WACC**	**9.9**
Value of minority shareholders' equity	-		
Value of marketable assets	-	**Assumptions**	
DCF value of equity	**1,576**	Number of forecast years	10
DCF value per share (SEK)	**17.6**	EBIT margin - steady state (%)	20.0
Current share price (SEK)	6.07	EBIT multiple - steady state (x)	11.5
DCF performance potential (%)	190	Continuing value (% of NPV)	51.8

Source: SEB

DCF sensitivity

		9.0	9.5	**10.0**	10.5	11.0
	68	26.2	24.8	23.5	22.3	21.1
Equity capital weight (%)	78	22.7	21.4	20.2	19.1	18.1
	88	19.8	18.7	**17.6**	16.6	15.7
	98	17.5	16.5	15.5	14.6	13.8
	100	17.2	16.1	15.1	14.3	13.5

Absolute change in EBITDA margin - all years

		-2%	-1%	**0**	+1%	+2%
	-2%	14.3	15.0	15.7	16.4	17.0
Abs. change in sales growth - all years	-1%	15.2	15.9	16.6	17.3	18.0
	0	16.1	16.9	**17.6**	18.3	19.1
	+1%	17.1	17.8	18.6	19.4	20.2
	+2%	18.1	18.9	19.7	20.5	21.3

Source: SEB

DCF – assumption details

(SEKm)	2020E	2021E	2022E	2023E	2024E	Average year 6	Average year 7-8	Average year 9-10
Sales growth (%)	(37.7)	(19.4)	7.7	6.0	6.0	4.0	4.0	3.0
EBITDA margin (%)	20.0	35.3	36.8	36.8	36.8	36.8	36.8	35.9
EBIT margin (%)	(3.7)	12.9	18.1	18.4	18.8	19.0	19.4	19.8
Gross capital expenditures as % of sales	(28.0)	14.6	15.9	15.0	15.0	15.0	15.0	15.0
Working capital as % of sales	(16.4)	(16.4)	(16.4)	(16.4)	(16.4)	(16.4)	(16.4)	(16.4)
Sales	77	62	67	71	75	78	83	88
Depreciation	(8)	(8)	(8)	(8)	(9)	(9)	(10)	(10)
Intangibles amortisation	(10)	(6)	(4)	(4)	(4)	(4)	(4)	(4)
EBIT	(3)	8	12	13	14	15	16	18
Taxes on EBIT	(1)	(2)	(2)	(2)	(2)	(2)	(2)	(2)
Increase in deferred taxes	0	0	0	0	0	0	0	0
NOPLAT	**7**	**12**	**15**	**16**	**17**	**17**	**18**	**20**
Gross capital expenditure	21	(9)	(11)	(11)	(11)	(12)	(12)	(13)
Increase in working capital	2	(2)	1	1	1	0	1	0
Free cash flow	**38**	**9**	**13**	**14**	**15**	**15**	**16**	**16**
ROIC (%)	12.9	21.9	22.5	25.1	27.9	30.4	34.6	40.1
ROIC-WACC (%)	3.0	12.0	12.7	15.2	18.0	20.5	24.7	30.2
Share of total net present value (%)	0.0	0.4	0.6	0.6	0.6	0.5	1.0	0.8

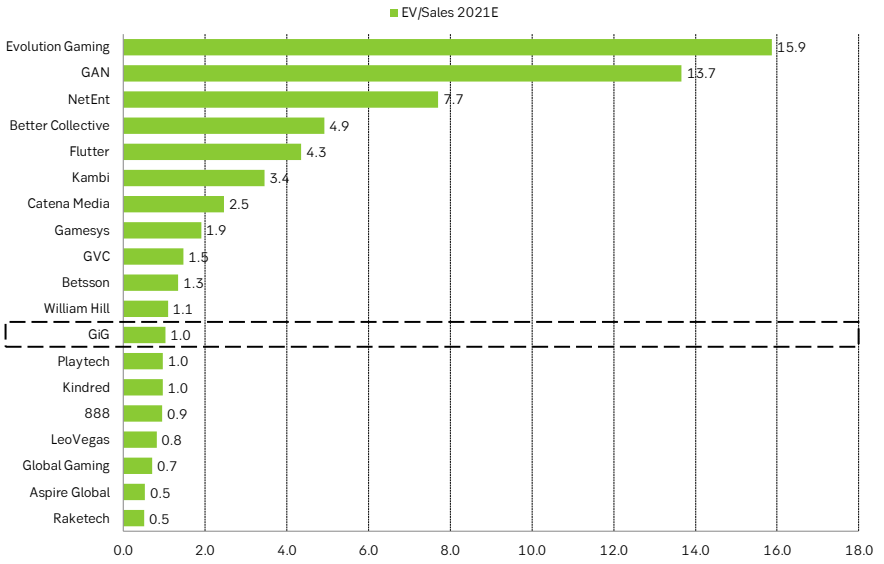
Source: SEB

Peer valuation table

	Mkt cap	PER			EV/EBIT			EV/EBITDA			EV/Sales		
	(SEKbn)	2020E	2021E	2022E	2020E	2021E	2022E	2020E	2021E	2022E	2020E	2021E	2022E
Affiliates													
Catena Media	1.3	4.1	3.6	3.0	6.7	5.7	5.3	4.9	4.3	4.0	2.7	2.5	2.3
Better Collective	6.2	32.0	20.6	17.2	23.2	13.9	10.9	16.8	11.0	8.8	6.9	4.9	4.0
Raketech	0.3	7.0	5.8	5.8	5.1	2.9	1.0	2.2	1.3	0.4	0.9	0.5	0.2
Median	**1.3**	**7.0**	**5.8**	**5.8**	**6.7**	**5.7**	**5.3**	**4.9**	**4.3**	**4.0**	**2.7**	**2.5**	**2.3**
Platform & product suppliers													
Playtech	10.4	15.7	9.7	8.6	10.7	7.7	7.5	4.8	4.0	3.7	1.1	1.0	0.9
Aspire Global	1.2	8.9	7.9	6.7	6.8	6.8	6.0	5.5	5.0	4.1	0.6	0.5	0.5
GAN	19.2	746.4	316.5	161.0	-	443.8	249.7	390.8	289.3	187.0	17.8	13.7	10.1
Evolution Gaming	104.7	42.5	36.1	31.4	38.2	31.8	27.1	34.2	28.4	24.2	19.4	15.9	13.5
NetEnt	18.3	26.7	20.8	17.7	25.1	18.5	15.3	15.7	12.5	10.9	8.8	7.7	6.8
Kambi	6.3	67.2	28.8	31.3	50.6	21.5	23.2	21.9	12.9	13.0	4.8	3.4	3.2
Median	**14.3**	**34.6**	**24.8**	**24.5**	**25.1**	**20.0**	**19.3**	**18.8**	**12.7**	**11.9**	**6.8**	**5.6**	**5.0**
GiG	**0.5**	**-9.7**	**9.4**	**5.7**	**-25.0**	**8.0**	**4.3**	**4.7**	**2.9**	**2.1**	**0.9**	**1.0**	**0.8**

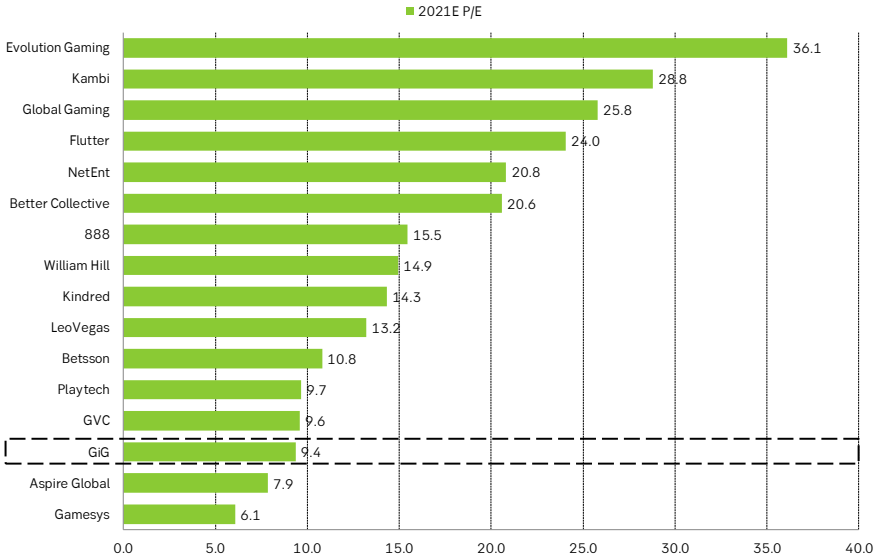
Source: Reuters, SEB

Sector Valuation EV/Sales



Source: SEB, Reuters

Sector Valuation PER



Source: SEB, Reuters

Appendix

Changes over the past year is that former CEO and co-founder Robin Reed has been replaced by Richard Brown and that Tore Fagerli has left the board of directors.

Board of Directors

- Petter Nylander – Chairman of the Board since December 2018. Long career in iGaming and Media, as CEO in Kindred (Unibet) and various positions in MTG. Holds 29,000 shares.
- Henrik Persson Ekdahl – On the board since September 2016. Partner and Co-founder at Optimizer invest, and long experience in the iGaming industry as per example from previous positions as CEO of Betsafe and CEO in Catena Media. Holds 4,696,125 shares.
- Paul Fishbein – Joined the board in December 2018. Entrepreneur and business leader in e-commerce, founder of Trett.se and previous positions including CEO of Qliro. Holds 10,800 shares.
- Helge Nilsen – Board member since 2014. Previous senior management experience in tech driven market organizations, including listed companies. Holds 1,012,000 shares.
- Robert Buren – Board member since 2018. Technical background with former leadership positions such as CTO of Unibet, CIO at SBAB Bank and CIA at Bisnode. Holds 20,000 shares.

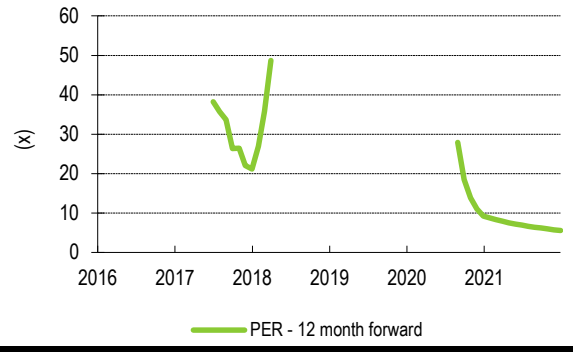
Management team

- Richard Brown – Appointed CEO in November 2019. Joined GiG in 2016 as Managing Director for GiG Media and before that he has experience from various directorial roles in the affiliate and internet sector. Holds 120,000 shares and 50,000 options.
- Tore Formo – Group CFO. Joined GiG through the reversed merger with Nio Inc. in 2015. 30 years of financial experience including banking, equity markets and start-ups. Holds 458,167 shares.
- Ben Clemes – Chief Commercial Officer. Has background in casino management including MGM in Las Vegas and Nordic Gaming Group. Joined GiG in 2013 and held position as Managing Director in GiG Core to 2016. Holds 1,907,146 shares.
- Chris Armes – Joined GiG in 2019 as Chief Information Officer with responsibility for GiGs different technology assets. Previous experience as CTO for SG Digital leading the integration with NYX. Holds 0 shares and 150,000 options.
- Justin Psaila – Chief Financial Officer. Has been with GiG since 2015. Previously Management Accountant at Betsson for 8 years. Holds 2,100 shares and 72,000 options.
- Tim Parker – Chief Marketing Officer. Holds 45,500 shares and 40,000 options.
- Christina Niculae – Chief Strategy Officer. Holds 0 shares and 30,000 options.

Overview

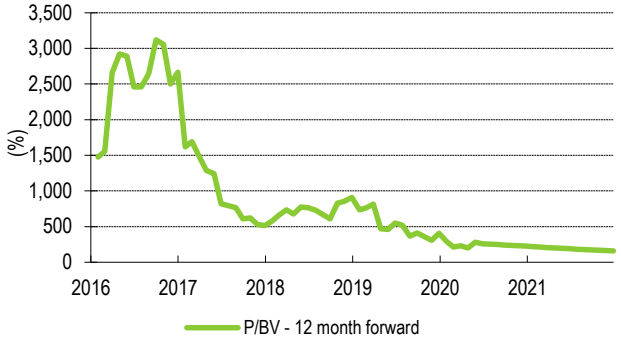
Investment consideratins	GiG has invested heavily over the years in creating a broad tool set and market leading platform. Over the past year financial performance has been negatively affected by regulatory implementations in Europe and the company has set in motion efforts to regain growth and recover profitability. Divesting the B2C business to Betsson in April was a major initiative to release cash and focus operation to B2B.
Company profile	Gaming Innovation Group is an internet gambling (iGaming) supplier, aiming to be the key partner for aspiring and existing iGaming companies. The company offers services throughout the value chain, affiliate marketing (GiG Media), software platform solutions (GiG Core), and proprietary games and odds production (GiG Sports Betting Services).
Valuation approach	To address the structural differences in margins and risk between the different business areas, we use a sum-of-the-parts valuation based on peers which are pure breed operators, game suppliers, or affiliates. This is supported by a group DCF valuation.
Risks	The main risks are unfavourable regulatory changes and a shift in focus to in-house production of platforms, games, sportsbooks, and affiliate services among the operators. The company is in a turnaround, although financial risk has been reduced after divestment of B2C and more improvement is needed for the company to reach its targets and grow cash flow.

PER - 12 month forward



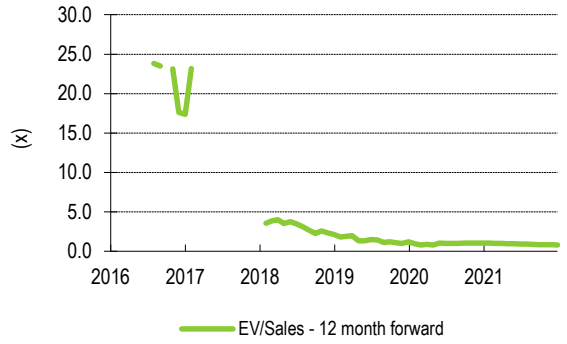
Source: SEB

P/BV - 12 month forward



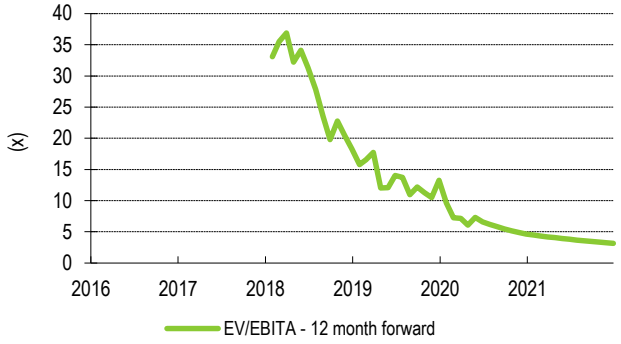
Source: SEB

EV/Sales - 12 month forward



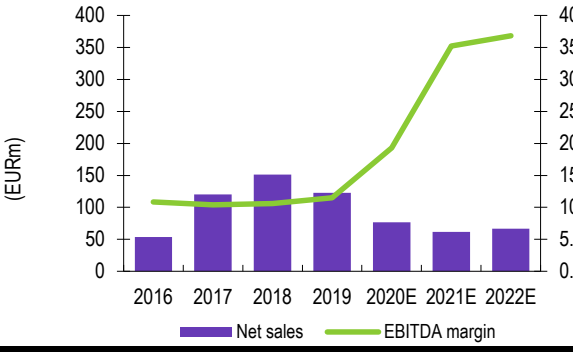
Source: SEB

EV/EBITA - 12 month forward



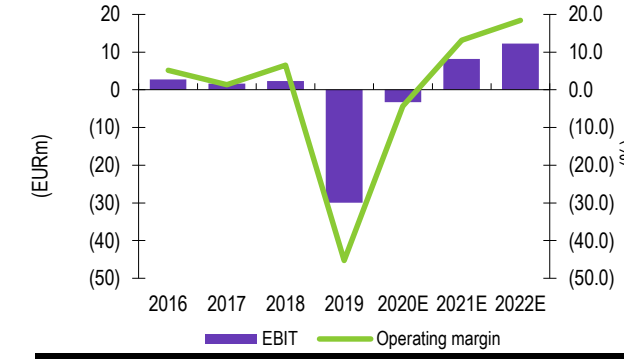
Source: SEB

Net sales & EBITDA margin



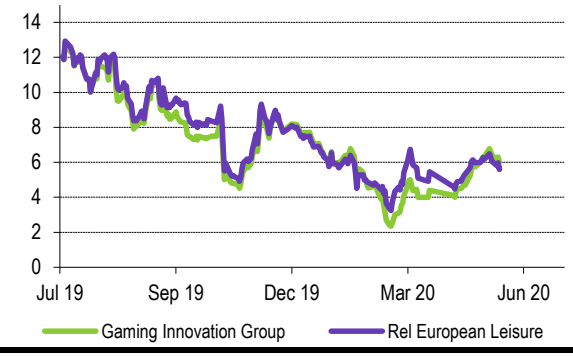
Source: SEB

EBIT & Operating margin



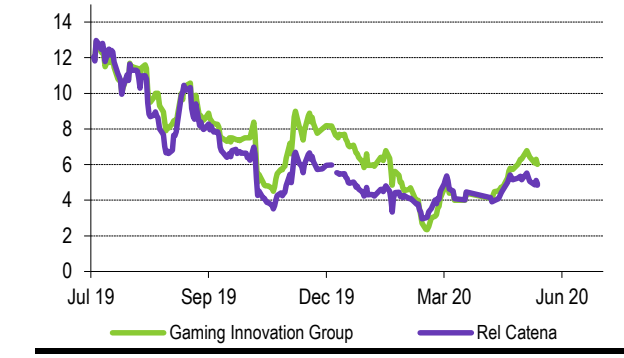
Source: SEB

Comparison with sector index - 1 year



Source: SIX

Comparison with Catena - 1 year



Source: SIX

Profit & loss statement - Gaming Innovation Group							
(EURm)	**2016**	**2017**	**2018**	**2019**	**2020E**	**2021E**	**2022E**
Net Sales	54	120	151	123	77	62	67
Other revenues	0	0	0	0	0	0	0
Total revenues	**54**	**120**	**151**	**123**	**77**	**62**	**67**
Total expenses	(48)	(108)	(135)	(109)	(62)	(40)	(42)
Profit before depreciation	**6**	**13**	**16**	**14**	**15**	**22**	**25**
Depreciation - Fixed assets	0	0	0	0	0	0	0
Depreciation - Other assets	0	0	0	0	(8)	(8)	(8)
Amortisation - Goodwill	0	0	0	0	0	0	0
Amortisation - Other intangibles	(3)	(11)	(6)	(70)	(10)	(6)	(4)
Operating profit	**3**	**2**	**10**	**(56)**	**(3)**	**8**	**12**
Net interest expenses	0	(1)	(2)	(8)	(3)	(2)	(2)
Foreign exchange items	0	0	0	0	0	0	0
Other financial items	(1)	0	0	0	0	0	0
Value changes - Fixed assets	0	0	0	0	0	0	0
Value changes - Financial assets	1	0	(3)	0	1	0	0
Value changes - Other assets	0	0	0	0	0	0	0
Reported pre-tax profit	**3**	**1**	**6**	**(64)**	**(5)**	**6**	**10**
Minority interests	0	0	0	0	0	0	0
Total taxes	(0)	(1)	(1)	(1)	0	(1)	(1)
Reported profit after tax	**2**	**(0)**	**5**	**(65)**	**(5)**	**6**	**9**
Discontinued operations	0	0	0	0	0	0	0
Extraordinary items	(0)	0	0	0	0	0	0
Net Profit	**2**	**(0)**	**5**	**(65)**	**(5)**	**6**	**9**
Adjustments:							
Discontinued operations	0	0	0	0	0	0	0
Interest on convertible debt	0	0	0	0	0	0	0
Minority interests (IFRS)	0	0	0	0	0	0	0
Value changes	(1)	0	3	0	(1)	0	0
Goodwill/intangibles amortisations	3	11	6	70	10	6	4
Restructuring charges	0	0	0	0	0	0	0
Other adjustments	(3)	(11)	7	(26)	(10)	(6)	(4)
Tax effect of adjustments	0	0	0	0	0	0	0
Adjusted profit after tax	**1**	**(0)**	**21**	**(21)**	**(6)**	**6**	**9**
Margins, tax & returns							
Operating margin	5.2	1.3	6.5	(45.3)	(4.3)	13.2	18.4
Pre-tax margin	5.1	0.5	3.7	(52.1)	(7.1)	10.2	15.7
Tax rate	13.2	175.2	13.5	(1.0)	5.3	11.0	11.0
ROE	4.6	(0.4)	4.9	n.m.	(26.1)	28.2	33.9
ROCE	5.3	1.1	1.4	(24.8)	(4.8)	15.4	20.3
Growth rates y-o-y (%)							
Total revenues	n.a.	124.6	25.7	(18.7)	(37.7)	(19.4)	7.7
Operating profit	n.m.	(41.9)	511.4	n.m.	n.m.	n.m.	50.6
Pre-tax profit	n.m.	(79.9)	907.7	n.m.	n.m.	n.m.	65.4
EPS (adjusted)	0.0	0.0	0.0	0.0	0.0	0.0	65.4

Cash flow							
(EURm)	**2016**	**2017**	**2018**	**2019**	**2020E**	**2021E**	**2022E**
Net profit	2	(0)	5	(65)	(5)	6	9
Non-cash adjustments	2	11	9	70	18	14	12
Cash flow before work cap	**4**	**10**	**14**	**5**	**12**	**19**	**22**
Ch. in working capital / Other	6	(2)	3	4	2	(2)	1
Operating cash flow	**10**	**8**	**16**	**10**	**14**	**17**	**22**
Capital expenditures	(5)	(67)	(11)	(12)	(9)	(9)	(10)
Asset disposals	0	0	0	0	0	0	0
L/T financial investments	0	0	(1)	(0)	0	0	0
Acquisitions / adjustments	0	0	0	0	31	0	0
Free cash flow	**5**	**(58)**	**4**	**(2)**	**36**	**8**	**12**
Net loan proceeds	2	62	2	(0)	(34)	0	0
Dividend paid	0	0	0	0	0	0	0
Share issue	5	0	0	0	0	0	0
Other	0	(0)	0	(2)	0	0	0
Net change in cash	**12**	**4**	**6**	**(4)**	**2**	**8**	**12**
Adjustments							
C/flow bef chng in work cap	4	10	14	5	12	19	22
Adjustments	0	0	0	0	0	0	0
Int on conv debt net of tax	0	0	0	0	0	0	0
Cash earnings	4	10	14	5	12	19	22
Per share information							
Cash earnings	0.01	0.01	0.15	0.06	0.14	0.22	0.24
Operating cash flow	0.02	0.01	0.18	0.11	0.16	0.19	0.25
Free cash flow	0.01	(0.06)	0.04	(0.03)	0.4	0.09	0.14
Investment cover							
Capex/sales (%)	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Capex/depreciation (%)	0	0	0	0	0	0	0

Source for all data on this page: SEB

Balance sheet - Gaming Innovation Group

(EURm)	2016	2017	2018	2019	2020E	2021E	2022E
Cash and liquid assets	6	12	15	10	13	21	33
Debtors	13	25	29	22	14	11	12
Inventories	0	0	0	0	0	0	0
Other	0	0	0	0	0	0	0
Current assets	**19**	**37**	**43**	**32**	**26**	**32**	**45**
Interest bearing fixed assets	0	0	0	0	0	0	0
Other financial assets	0	0	0	22	22	22	22
Capitalized development cost	0	0	0	0	1	2	4
Goodwill	64	69	69	41	10	10	10
Other intangibles	41	92	70	41	31	25	21
Fixed tangible assets	0	0	0	0	0	0	0
Other fixed assets	2	7	8	0	0	0	0
Fixed assets	**108**	**169**	**147**	**103**	**64**	**59**	**57**
Total assets	**126**	**206**	**190**	**136**	**90**	**91**	**102**
Creditors	15	29	34	33	26	21	23
Other trade financing	0	0	0	0	0	0	0
S/T interest bearing debt	0	0	0	34	0	0	0
Other	3	0	1	0	0	0	0
Current liabilities	**18**	**29**	**35**	**66**	**26**	**21**	**23**
L/T interest bearing debt	0	66	64	33	33	33	33
Other long-term liabilities	3	1	2	12	12	12	12
Convertible debt	0	0	0	0	0	0	0
Pension provisions	0	0	0	0	0	0	0
Other provisions	0	0	0	(0)	(0)	(0)	(0)
Deferred tax	0	1	1	1	1	1	1
Long term liabilities	**3**	**68**	**67**	**47**	**47**	**47**	**47**
Minority interests	0	0	0	0	0	0	0
Shareholders' equity	**105**	**109**	**88**	**22**	**17**	**23**	**32**
Total liabilities and equity	**126**	**206**	**190**	**136**	**90**	**91**	**102**
Net debt (m)	(6)	54	50	57	21	12	0
Working capital (m)	(6)	(4)	(6)	(11)	(13)	(10)	(11)
Capital employed (m)	105	175	152	89	50	56	65
Net debt/equity (%)	(6)	50	56	255	120	54	1
Net debt/EBITDA (x)	(1.0)	4.3	3.1	4.0	1.4	0.6	0.0
Equity/total assets (%)	83	53	46	16	19	25	31
Interest cover	0.0	1.5	6.1	(6.7)	(1.2)	4.4	6.7

Valuation

(EUR)	2016	2017	2018	2019	2020E	2021E	2022E
No of shares, fully dil. (y/e)	629.6	895.7	895.7	895.7	895.7	895.7	895.7
No of shares, fully dil. avg.	632.1	900.0	895.7	895.7	895.7	895.7	895.7
Share price, y/e	31.0	49.3	22.9	8.2	6.0	6.0	6.0
Share price, high	51.2	61.8	64.6	25.0	8.2		
Share price, low	17.5	27.0	20.6	4.5	2.4		
Share price, avg	33.1	46.2	42.5	12.5	5.4		
EPS (reported)	0.00	(0.00)	0.05	(0.72)	(0.06)	0.06	0.10
EPS (adjusted)	0.00	(0.00)	0.24	(0.23)	(0.06)	0.06	0.10
Cash earnings/share	0.01	0.01	0.15	0.06	0.14	0.22	0.24
Dividend/share	0.00	0.00	0.00	0.00	0.00	0.00	0.00
Enterprise value/share	3.2	5.1	2.8	1.4	0.8	0.7	0.6
Book value/share	0.2	0.1	1.0	0.2	0.2	0.3	0.4
Adjusted equity/share	0.2	0.1	1.0	0.2	0.2	0.3	0.4
PER (adjusted)	n.m.	n.m.	9.5	n.m.	n.m.	9.2	5.5
CEM	533.5	430.0	14.7	13.5	4.1	2.7	2.4
Dividend yield	0.0	0.0	0.0	0.0	0.0	0.0	0.0
EV/EBITDA	349.2	363.1	15.7	8.9	4.9	2.9	2.1
EV/EBITA	349.2	363.1	15.7	8.9	10.6	4.6	3.1
EV/EBIT	733.3	2,825.9	106.9	(4.2)	(21.7)	7.8	4.2
EV/Sales (x)	37.89	37.75	1.66	1.03	0.94	1.03	0.78
Price/Book value	19.37	41.30	2.31	3.14	3.00	2.26	1.61
Price/adjusted equity	19.37	41.30	2.31	3.14	3.00	2.26	1.61
Free cash flow/Market cap (%)	n.a.	n.a.	2.4	(3.2)	9.9	16.0	23.5
Operating cash flow/EV (%)	0.5	0.2	6.5	7.6	20.0	26.4	43.2
EV/Capital employed (x)	19.3	25.9	1.7	1.4	1.4	1.1	0.8

Main shareholders

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

Management

Title	Name
COB	Helge Nielsen
CEO	Richard Brown
CFO	Tore Formo
IR	Anna-Lena Ahström

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Source for all data on this page: SEB

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