



Buy	Initiation of coverage	IT/Technology	Finland	19 December 2018
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Date and time of decision to initiate recommendation: 18 Dec 2018, 09:30 CET

Keep your Nitros close at hand

We initiate coverage of Nitro Games with a Buy recommendation and a target price of SEK 88.6. We believe that the company can gradually ramp-up its self-publishing revenues, while benefitting from Netmarble's expertise in the MEA and Asia regions. Short-term revenues will be dependent on the new game 'Heroes of Warland'. In 2019-20 we expect the company to launch one to two games, which would diversify single game risk.

Key Data (2018E)	
Price (SEK)	40.10
Target price (SEK)	88.60
Recommendation	Buy
Risk	Normal
Reuters	NITRO.ST
Bloomberg	0
Market cap (SEKm)	145
Market cap (USDm)	16
Market cap (EURm)	14
Net debt (EURm)	(4)
Shares fully dil. (m)	3.6
Avg daily turnover (SEKm)	0.4
Free float	69%

Investment case – partnerships and publishing

Nitro Games (Nitro) has demonstrated its ability to develop and publish games. The company has cooperated with larger peers such as Paradox Interactive and Wargaming in work-for-hire projects. The company has partnered with Netmarble EMEA to act as its publishing partner in the Middle East and Africa (MEA) region. Samsung Electronics America and Huawei have both agreed to promote 'Heroes of Warland'. We expect Nitro's self-publishing business to drive growth in its revenues and gross margin over the next three years.

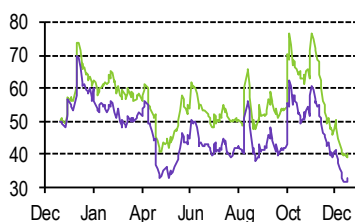
Financial forecast – growth in the emerging mobile game genre

We expect Nitro's revenues to grow by 97% in 2019 and 45% in 2020. We believe the key driver of growth will be Nitro publishing its 'Heroes of Warland' and 'Medals of War' games, along with proceeds from the cooperation with Netmarble in the MEA region for two of Nitro's games. We expect further growth potential overtime from Netmarble Asia willing to promote the games in China and rest of Asia and new work-for-hire contacts with large partners.

Valuation – justified by a high rate of growth

Nitro trades at 2.3x and 1.7x 2019E and 2020E EV/Sales, respectively. The company has many ways to justify the current share price, most notably the Netmarble partnership. Nitro must now deliver on growth and the valuation is justified, in our view, with room for multiples expansion.

Share Price (12M)



Absolute performance (green) / Relative to Nordic IT/Technology (purple).

Analyst

Veli-Pekka Puolakanaho
 (358) 9 616 28509
 veli-pekka.puolakanaho@seb.fi

Financials (EUR)

Year end: Dec	2017	2018E	2019E	2020E
Revenues (m)	2	3	5	8
Adj. EBIT	(3)	(4)	(2)	(1)
Pre-tax profit (m)	(3)	(4)	(2)	(1)
EPS	(1.91)	(1.56)	(0.66)	(0.33)
Adj. EPS	(1.91)	(1.56)	(0.66)	(0.33)
DPS	0.00	0.00	0.00	0.00
Revenue growth (%)	n.m.	54.1	97.0	44.9
Adj. EBIT growth (%)	n.m.	n.m.	n.m.	n.m.
Adj. EPS growth (%)	n.m.	n.m.	n.m.	n.m.
Adj. EBIT margin (%)	n.m.	n.m.	(43.8)	(15.1)
ROE (%)	(148.2)	(104.4)	(62.5)	(58.7)
ROCE (%)	(120.4)	(96.6)	(57.5)	(50.4)
PER (x)	n.m.	n.m.	n.m.	n.m.
Free cash flow yield (%)	(28.9)	(39.6)	(17.4)	(8.9)
Dividend yield (%)	0.0	0.0	0.0	0.0
P/BV (x)	4.19	2.81	5.37	9.83
EV/Sales (x)	6.75	3.75	2.35	1.78
EV/Adj. EBITDA (x)	(6.2)	(2.8)	(7.3)	(25.4)
EV/Adj. EBIT (x)	(4.6)	(2.4)	(5.3)	(11.7)
Operating cash flow/EV (%)	(25.5)	(34.8)	(13.8)	(3.9)
Net debt/Adj. EBITDA (x)	0.82	1.04	0.80	0.28

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

Investment case

Short-term drivers

Successful launch of 'Heroes of Warland', but now is the time to monetise

'Heroes of Warland' launched on 15 November 2018. According to Nitro, the launch has been successful in achieving critical mass of players in the beginning of the launch. This means that the company can now start to measure and make data driven improvement in retention (the number of players who return to a game one day, seven days, and 30 days after launch), conversion (turning active players to active paying players), monthly average revenue per paying user (MARPPU), and average revenue per daily active user (ARPDau).

In the chart below, the ARPDau of Nitro's peers is USD 0.04 to USD 1.47. These mobile game companies have portfolios containing several games, meaning that that their portfolio ARPDau contains games with high and low monetisation, making ARPDau an average across their game portfolios.

Games										
Name	MAU	MUP	Conversion	DAU	MAGRPPU	ARPDau	Currency	Date	Genre exposure	
G5 Entertainment	8.000	0.286	3.58%	2.000	44.2	1.47	USD	Q3 2018	Puzzle, Hidden Object, Match3	
Next Games	1.018	0.025	2.50%	0.312	62.7	0.17	EUR	Q1 2018	Adventure, Shooter, RPG	
Rovio top 5	20.200	0.451	2.23%	3.800	36.0	0.16	EUR	Q3 2018	Slingshot, Puzzle, Match3, Tap-to-Match	
Rovio all	59.600	0.517	0.87%	8.000	35.9	0.09	EUR	Q3 2018	Slingshot, Puzzle, Match3, Tap-to-Match	
Zynga	87.000	1.000	1.15%	22.000	70.7	0.11	USD	Q3 2018	Simulator, RPG, Card Games	
King	533.000	8.300	1.56%	149.000	21.9	0.04	USD	Q4 2014	Match3, Tap-to-Match	
Glu Mobile	19.400	0.485	2.50%	3.400	68.2	0.32	USD	Q3 2018	Strategy, RPG	

Next Games and Glu Mobile MUP and MAGRPPU figures assume conversion of 2.5%. MAU (Monthly Active Players), MUP (Monthly Unique Payers), Conversion (the share of active players who pay for content), DAU (Daily Active Users), MAGRPPU (Monthly Average Gross Revenue Per Paying User), ARPDau (Average Revenue Per Daily Active User)

Source: SEB.

Based on the peers in the table above, we estimate that 'Heroes of Warland' could reach ARPDau of EUR 0.10 to USD 0.23. 'Heroes of Warland' is a game targeted at adult males in the mid-core segment (i.e. games that are easy to learn, but difficult to master, and which offer deep experiences to those gamers who can only play short sessions). These consumers are typically loyal to the games and genres they play. In addition, they typically spend a higher amount of cash on the games they play, resulting in higher monetisation per user than e.g. slingshot, match3, or tap-to-match types of games by Rovio or King (see below). Monetisation in shooters must be built carefully, e.g. not to include pay to win mechanisms, which can create player resentment. This is why shooters generally monetise less than e.g. strategy games or RPGs. Of the peers above, 'Heroes of Warland' is most comparable with the monetisation of titles by Next Games or Glu Mobile.

'Fortnite' is leading the shooter genre

The shooter genre on mobile platforms was popularised by 'Fortnite' (Epic Games) and 'Player Unknown's Battlegrounds' (PUBG Corporation) in early 2018. Before these two games, there were few successful titles on mobile platforms in the shooter genre. In the table below, we show our estimates for daily and monthly revenues for 'Fortnite' using Sensor Tower data. By the end of September 2018, the game had generated cumulative revenues of over USD 300m on iOS alone. The revenues are abnormally high and part of the explanation is the fact that the genre is fairly new. In addition, these titles were previously launched on other platforms (console and PC) where they gained a significant player base, which has helped the mobile version's discoverability and revenues. Although there have been other entrants in the genre in 2018, the competition in mobile shooters is lower than in match3 or puzzle type games. The market is growing fast and there is scope for different games in the genre.

Fortnite's mobile daily revenue has been USD 0.4-2.5m during the first eight months since its release

	Mar-18	Apr-18	May-18	Jun-18	Jul-18	Aug-18	Sep-18	Oct-18	Nov-18
Daily Revenue (USD m.)	0.4	0.5	1.7	1.5	2.0	2.2	2.0	2.5	1.2
Monthly Revenue (USD m.)	6.0	15.0	51.0	45.0	60.0	66.0	60.0	75.0	36.0
Cumulative Revenue (USD m.)	6.0	21.0	72.0	117.0	177.0	243.0	303.0	378.0	414.0

Source: SEB, Sensor Tower

In September 2018, 'Fortnite' developer Epic Games stated that the game had a total of 78.3m active monthly players across different platforms. We assume that half of these play on mobile platforms (smartphones and tablets are approximately 50% of the games industry by revenues in 2018 according to Newzoo) and 25% of these players use an Apple phone (representing iOS' global market share of smart phones). A typical rate of converting a free player to a paying user in mobile games is 3% (see table on page 2). As a result, Fortnite's iOS MARPPU is USD 204.3, which is considerably more than the average on mobile games, which is closer to USD 40 in western markets.

Fortnite's monetisation on iOS devices

	MAU	Mobile MAU	iOS MAU	iOS MUP	iOS MARPPU
Fortnite Mobile (iOS)	78.3	39.150	9.8	0.3	204.3

Source: SEB, Epic Games

We do not expect 'Heroes of Warland' to perform nearly as well as 'Fortnite Mobile'. However, we believe it is a good proxy of the potential in the market.

Revenue scenarios for 'Heroes of Warland'

In our base case scenario (shown in orange in the table on page 4), we assume that 'Heroes of Warland' is able to achieve daily active users (DAU) of 80,000 and improve ARPDAU from EUR 0.10 to EUR 0.23 over a period of four years. This would imply daily revenue of EUR 0.01-0.02m, which is low compared with Fortnite's daily revenue of USD 1.2m in September 2018. We base our assumptions on the performance of peers in the shooter genre as proxies. In addition, Nitro is aiming to achieve top 200 grossing games status for its shooter games, which for a shooter implies daily revenue between EUR 10,000 (EUR 0.9m per quarter) and EUR 20,000 (EUR 1.8m per quarter), based on DAU of 80,000 and ARPDAU of EUR 0.12 and EUR 0.25.

In our bear case scenario (shown in red in the table on page 4), we assume that 'Heroes of Warland' is able to achieve daily active users of 40,000, while retaining identical ARPDAU as our base case scenario, i.e. improving from EUR 0.10 to EUR 0.23 over a period of four years.

In our bull case scenario (shown in green in the table on page 4), we assume that 'Heroes of Warland' is able to achieve daily active users of 150,000 while retaining identical ARPDAU as our base case scenario, i.e. improving from EUR 0.10 to EUR 0.23 over a period of four years.

In all these scenarios, we have calculated revenues from markets where Nitro has published 'Heroes of Warland'. In all the scenarios, we expect Netmarble's published versions of 'Heroes of Warland' to receive 20% lower revenues due to a 20% smaller gamer base in the MEA region. Nitro receives 35% of this revenue after game store fees of 30%.

In all these scenarios, we expect Netmarble's MEA version of the game to monetise with a similar revenue profile, but slightly more effectively due to larger UA budget at its disposal. Nitro receives 35% of the MEA region net revenue after store fees of 30%.

Nitro operates in a part of the market with limited competition

The scenarios are dependent on the quality of the game, the virality of the game (the degree to which a game's popularity spreads via word of mouth amongst players), and the effectiveness of user acquisition (UA). Nitro has had the 'Heroes and Superstars' TV show to promote 'Heroes of Warland'. The company has also formed a promotional agreement with Huawei and Samsung Electronics America for the game (the latter of which has agreed to spend USD 0.2-0.5m on game UA). These factors fuel organic user acquisition and virality. According to Nitro's management, the game has had a good launch, but with limited amount of retention data (the number of gamers returning to play the game in one day, seven days, and 30 days after download), it is too early to assess the effectiveness of monetisation.

'Heroes of Warland' scenarios: quarterly revenue (EURm) by ARPDAU (EUR) and DAU (m)

ARPDAU	DAU																				
	0.01	0.02	0.04	0.06	0.08	0.1	0.15	0.2	0.3	0.4	0.5	0.6	0.7	0.8	0.9	1	1.1	1.2	1.3	1.4	1.5
0.01	0.0	0.0	0.0	0.1	0.1	0.1	0.1	0.1	0.2	0.3	0.4	0.5	0.6	0.7	0.8	0.9	1.0	1.1	1.2	1.3	1.4
0.02	0.0	0.0	0.1	0.1	0.1	0.2	0.3	0.4	0.5	0.7	0.9	1.1	1.3	1.4	1.6	1.8	2.0	2.2	2.3	2.5	2.7
0.03	0.0	0.1	0.1	0.2	0.2	0.3	0.4	0.5	0.8	1.1	1.4	1.6	1.9	2.2	2.4	2.7	3.0	3.2	3.5	3.8	4.1
0.04	0.0	0.1	0.1	0.2	0.3	0.4	0.5	0.7	1.1	1.4	1.8	2.2	2.5	2.9	3.2	3.6	4.0	4.3	4.7	5.0	5.4
0.05	0.0	0.1	0.2	0.3	0.4	0.5	0.7	0.9	1.4	1.8	2.3	2.7	3.2	3.6	4.1	4.5	5.0	5.4	5.9	6.3	6.8
0.06	0.1	0.1	0.2	0.3	0.4	0.5	0.8	1.1	1.6	2.2	2.7	3.2	3.8	4.3	4.9	5.4	5.9	6.5	7.0	7.6	8.1
0.07	0.1	0.1	0.3	0.4	0.5	0.6	0.9	1.3	1.9	2.5	3.2	3.8	4.4	5.0	5.7	6.3	6.9	7.6	8.2	8.8	9.5
0.08	0.1	0.1	0.3	0.4	0.6	0.7	1.1	1.4	2.2	2.9	3.6	4.3	5.0	5.8	6.5	7.2	7.9	8.6	9.4	10.1	10.8
0.09	0.1	0.2	0.3	0.5	0.6	0.8	1.2	1.6	2.4	3.2	4.1	4.9	5.7	6.5	7.3	8.1	8.9	9.7	10.5	11.3	12.2
0.10	0.1	0.2	0.4	0.5	0.7	0.9	1.4	1.8	2.7	3.6	4.5	5.4	6.3	7.2	8.1	9.0	9.9	10.8	11.7	12.6	13.5
0.11	0.1	0.2	0.4	0.6	0.8	1.0	1.5	2.0	3.0	4.0	5.0	5.9	6.9	7.9	8.9	9.9	10.9	11.9	12.9	13.9	14.9
0.12	0.1	0.2	0.4	0.6	0.9	1.1	1.6	2.2	3.2	4.3	5.4	6.5	7.6	8.6	9.7	10.8	11.9	13.0	14.0	15.1	16.2
0.13	0.1	0.2	0.5	0.7	0.9	1.2	1.8	2.3	3.5	4.7	5.9	7.0	8.2	9.4	10.5	11.7	12.9	14.0	15.2	16.4	17.6
0.14	0.1	0.3	0.5	0.8	1.0	1.3	1.9	2.5	3.8	5.0	6.3	7.6	8.8	10.1	11.3	12.6	13.9	15.1	16.4	17.6	18.9
0.15	0.1	0.3	0.5	0.8	1.1	1.4	2.0	2.7	4.1	5.4	6.8	8.1	9.5	10.8	12.2	13.5	14.9	16.2	17.6	18.9	20.3
0.16	0.1	0.3	0.6	0.9	1.2	1.4	2.2	2.9	4.3	5.8	7.2	8.6	10.1	11.5	13.0	14.4	15.8	17.3	18.7	20.2	21.6
0.17	0.2	0.3	0.6	0.9	1.2	1.5	2.3	3.1	4.6	6.1	7.7	9.2	10.7	12.2	13.8	15.3	16.8	18.4	19.9	21.4	23.0
0.18	0.2	0.3	0.6	1.0	1.3	1.6	2.4	3.2	4.9	6.5	8.1	9.7	11.3	13.0	14.6	16.2	17.8	19.4	21.1	22.7	24.3
0.19	0.2	0.3	0.7	1.0	1.4	1.7	2.6	3.4	5.1	6.8	8.6	10.3	12.0	13.7	15.4	17.1	18.8	20.5	22.2	23.9	25.7
0.20	0.2	0.4	0.7	1.1	1.4	1.8	2.7	3.6	5.4	7.2	9.0	10.8	12.6	14.4	16.2	18.0	19.8	21.6	23.4	25.2	27.0
0.21	0.2	0.4	0.8	1.1	1.5	1.9	2.8	3.8	5.7	7.6	9.5	11.3	13.2	15.1	17.0	18.9	20.8	22.7	24.6	26.5	28.4
0.22	0.2	0.4	0.8	1.2	1.6	2.0	3.0	4.0	5.9	7.9	9.9	11.9	13.9	15.8	17.8	19.8	21.8	23.8	25.7	27.7	29.7
0.23	0.2	0.4	0.8	1.2	1.7	2.1	3.1	4.1	6.2	8.3	10.4	12.4	14.5	16.6	18.6	20.7	22.8	24.8	26.9	29.0	31.1
0.24	0.2	0.4	0.9	1.3	1.7	2.2	3.2	4.3	6.5	8.6	10.8	13.0	15.1	17.3	19.4	21.6	23.8	25.9	28.1	30.2	32.4
0.25	0.2	0.5	0.9	1.4	1.8	2.3	3.4	4.5	6.8	9.0	11.3	13.5	15.8	18.0	20.3	22.5	24.8	27.0	29.3	31.5	33.8

Source: SEB

The shooter genre on mobile is fresh, reflected in low user acquisition costs

According to the company, the cost per install (CPI) in the shooter genre for mobile is low. One key explanatory factor is the relatively lower competition (there are few rivals in the genre). This means that even with limited resources, it can spend effectively on paid UA. Over time the competition is likely to increase, increasing the cost of UA. 'Heroes of Warland' now has a good window of opportunity to establish its fan base and a critical mass of gamers. The low competition has a significant impact on UA profitability, i.e. ROI. The higher the CPI, the higher the user lifetime value (LTV) needed to support a positive ROI and vice versa. Because shooter games have a low CPI and a user base which is willing to spend relatively high amounts of money, Nitro has an avenue for profitable growth, in our view.

'Medals of War' is on a knife's edge

Nitro's first published game, 'Medals of War', is one year old in Western markets and less than half a year old in the MEA region where it was published by Netmarble EMEA. The game has had a slow start. We estimate that for the Western version of the game, DAU was between 14,000 and 30,000 in the first three months after release. According to Nitro, the game ARPDAU ranged from USD 0.07 to USD 0.19 between September 2017 and March 2018.

Nitro has improved its analytics and user acquisition methods since the start of the year. In addition, it has learnt from Netmarble's analytics and UA tools through its collaboration. We estimate that the game has potential to drive some revenues, but we do not assign a significant weight to these in our financial model. In our estimates, 'Medals of War' will have approximately 20,000 DAU and ARPDAU of between EUR 0.07 to EUR 0.13. This implies quarterly revenue of between EUR 0.1 to EUR 0.2m in the next two years before declining. The game can make a greater impact on revenues by further expanding the player base and improving the retention. The company needs to find a way to optimise player life time value (LTV), which is in part driven by retention, and cost per install (CPI) for the game. In any case, we believe that the majority of Nitro's efforts and resources should be directed to capitalise on the early success of 'Heroes of Warland', meaning that 'Medals of War' will remain a steady compounder.

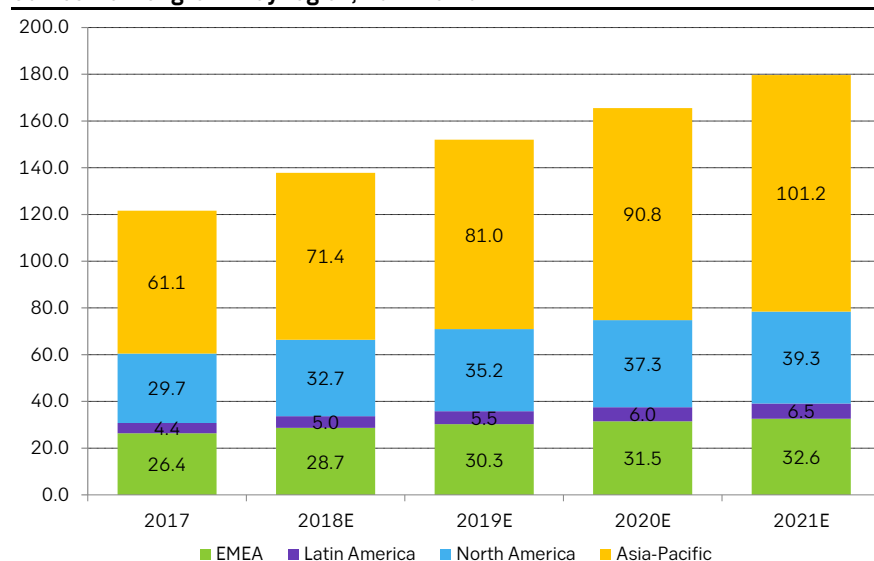
New game pipeline

Nitro has not revealed its plans for new game releases. In our view, the company will focus its efforts in 2019 to optimise the performance of 'Heroes of Warland'. We expect one new launch in 2020 and one in 2021. In our model we assume that these games generate revenue of similar scale to 'Medals of war', i.e. EUR 0.15m to EUR 0.23m per quarter.

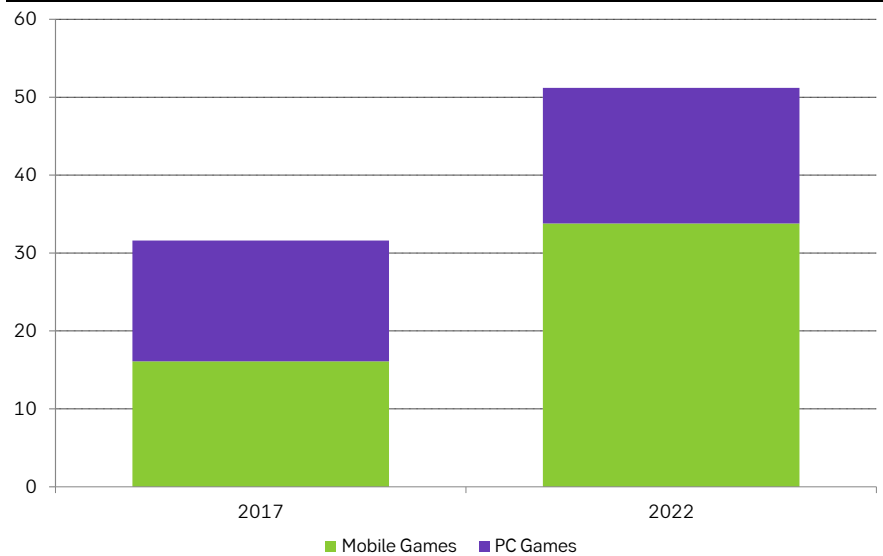
Asia option

Netmarble has the first right of refusal to launch 'Medals of War' in Asia and 'Heroes of Warland' has been published in parts of Asia, but no deal has been made for China yet (where game companies in practice need a local partner). We do not include this optionality in our model. However, if these games' KPIs reach a similar level to Netmarble's internal thresholds, launch in Asia is highly likely. The largest upside potential comes from launching the games in China, which is the largest and fastest growing games market. However, due to government restructuring in China, the local authorities have not issued licences required to launch games in the country since March 2018. Therefore, the Asian launches for Nitro's games are essentially a free option at this point. If they occur it is a positive, but the investment case does not rest on this possibility. As shown in the charts below, the Asia-Pacific region and in particular China are the leading areas of growth in the games industry. When China decides to continue issuing licences for games, there is a long list of developers waiting to exploit that opportunity.

Games market growth by region, 2017 to 2021



Source: SEB, Newzoo

Chinese games market growth driven by mobile games (%)

Source: SEB, Niko Partners

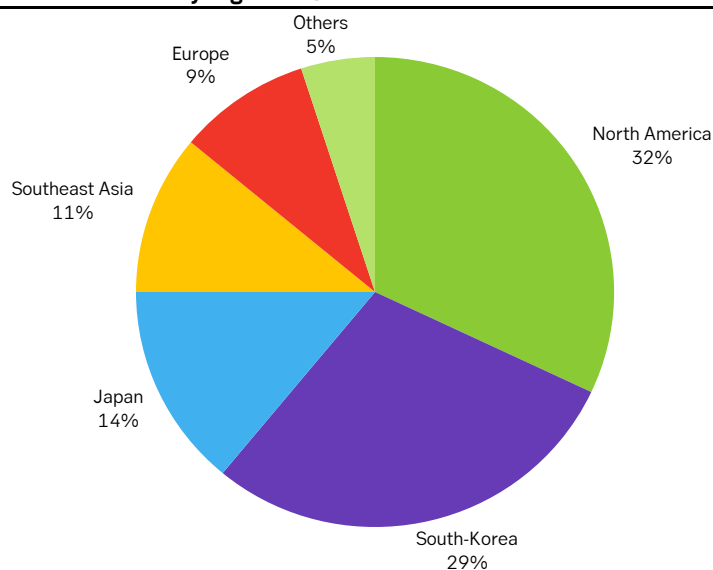
Key short-term risk: 'Heroes of Warland' needs to find its niche

'Heroes of Warland' was launched on 15 November 2018. Nitro has stated that the launch has been a success, but there is very little data available. There are many positive signs supporting the claim of a strong release – Netmarble EMEA is willing to launch the game in H1 2019 and Samsung Electronics America and Huawei are willing to promote the game. However, there is no data which suggests that the critical mass of active players has been reached, whether the churn is manageable, and whether the monetisation of the game actually works. It also remains to be seen whether Nitro Games can gradually ramp-up UA without increasing the cash burn from the current levels.

Long-term drivers**Partnership with Netmarble opens up opportunities**

The potential in this partnership is significant in our view. Netmarble was the eleventh largest game company in the world by revenues in 2017 with sales of USD 2.3bn. The company is mostly known for 'Lineage 2' and 'Marvel: Future Fight'. Netmarble is based in Seoul, South Korea, and operates globally. As shown in the chart below, in Q2 2018 Netmarble had 5% of its revenues derived from outside Europe, Asia, and North America. The company has scope to expand in the MEA region, and is making efforts to enable this growth.

Netmarble's revenues by region in Q2 2018



Source: SEB

The MEA region gamer base is 80% the size of North America and Western Europe combined. In 2018 the region is expected to outpace growth in all other regions and the fast rate is expected to continue according to Newzoo estimates. This makes the region attractive for games developers. The challenge is that there are steep cultural differences making it crucial to localise games. Furthermore, UA and marketing has to be tailored to local markets. This is where a small game company such as Nitro can benefit from cooperation with a larger, established company such as Netmarble.

The games industry in MEA is growing fast and has a deep gamer base

	2018E Revenues (USD bn.)	Y-o-Y Growth	Population (m.)	Online Population (m.)	Gamers (m.)
North America	32.7	10.0%	363.7	298.9	199.9
Latin America	5.0	13.5%	650.6	411.3	234.1
Western Europe	20.0	5.6%	408.9	357.5	207.0
Eastern Europe	3.9	9.1%	353.0	265.0	147.1
MEA	4.9	23.6%	1716.2	601.4	330.7
APAC	71.4	16.8%	4098.0	1944.4	1234.2

Source: SEB, Newzoo

Nitro and Netmarble EMEA launched a localised version of 'Medals of War' in the MEA region in July 2018. In October 2018 the two companies agreed to publish 'Heroes of Warland' in the MEA region in H1 2019. For 'Medals of War', Netmarble Asia has the right of first refusal for Asia including China. Netmarble has internal game KPI thresholds which Nitro's games need to surpass in order to be published in Asia. Success in this would imply strong revenue potential.

Even with access to the MEA region through only Netmarble EMEA, the partnership significantly expands Nitro's addressable market. Netmarble EMEA guides Nitro to localise its games and performs marketing and pays for UA.

Work-for-hire – a source for low risk cash flow

Nitro acts as a subcontractor for larger companies who choose to outsource certain game projects or parts of game projects to external companies. These projects have a fixed fee and typically last from one year to several years, depending on the nature of the contract and the game. There are three key advantages to these projects. First, Nitro receives revenues with little risk for the company. Second, Nitro is able to expand its developer team financed by the project payments, thus increasing brain capacity in the company. Third, these projects add reusable software modules for the NG Platform.

Although we appreciate the visibility of these projects, they tie up resources and have much lower gross margin and scalability than the company's publishing business. We expect less work-for-hire and more games from Nitro.

NG Platform allows fast prototyping and rapid delivery

The NG Platform is a database of game modules. These modules can be used to create game prototypes in an agile manner. Games are run on Nitro's cloud servers, allowing the company to gather large amounts of data from its players. Nitro's MVP Process utilises the technology modules and data analytics to enable fast transition from a game concept to a working prototype. Based on strong technical processes, the company can achieve a faster time to market than the average one to two years in the mobile game industry on average. This is particularly helpful in bidding for work-for-hire projects and has helped Nitro finish ahead of rivals in the past.

A small fish in a large pond

Nitro can find its own niche in a large and fast growing industry. Not all game companies have to be the next Activision Blizzard, EA, or Ubisoft. The market is large enough and grows fast enough to support companies with different styles and sizes. Being a small company, Nitro can be nimble in idea generation and agile in prototyping. The company has demonstrated willingness to adapt its games to local tastes. Nitro's management states that the company is willing to take risk in new game development, meaning that it can try something new and different, which is often not the case with larger companies. These qualities are appreciated by large peers, who continuously seek games to publish.

Ability to build up data analytics and knowhow from partners

Large companies have sophisticated models to process 'Big Data' and the ability to optimise UA and live ops. The resources of small companies are more constrained. In fact, there is a chronic lack of skilled data analytics in the market, making them expensive and difficult to acquire. Nitro and its partners share data analytics for their common game projects. They combine resources to tweak and target user acquisition. This allows Nitro to build-up its knowledge and capacity in data analytics far better than it could if it acted alone. These lessons can then be used for user acquisition in games that the company publishes in Western markets, as well as future projects.

Nimble development and partnerships could drive future growth

Nitro has demonstrated an ability to publish its own games and the ability to act as a reliable work-for-hire partner. The company has been able to establish major partnerships with publishers (e.g. Netmarble) and handset manufacturers/app store providers (Samsung, Huawei). Over the long-term, the key goal is the ability to keep new/current game development, user acquisition, analytics, and subcontracting in a balance so that profitable growth is enabled. Nitro has performed three directed share issues after its IPO. We want to see growth through several games/projects financed by cash flow. In practise this requires tight cost control and the ability to scale up the existing games, while taking care of new game pipeline. According to the company, the ideal amount over the short to medium-term would be to have two to three commercially viable games. This would diversify revenue streams without increasing the cost burden too much.

Key long-term risk: achieving critical mass of game & gamers and solid KPIs

Nitro's key challenge over the long-term is to keep producing popular games to support the growth of the company. Nitro does not yet have a bedrock of existing franchises it can leverage. It is crucial that it is able to develop a game portfolio with preferably several publishing partners. If it is not able to increase the size of the game portfolio and scale up the individual games to turn the company into profit, there is a risk that investors will grow impatient.

We value Nitro's Netmarble cooperation. In our opinion it holds the most favourable risk/reward. If managed correctly, we believe there are strong benefits in fostering the relationship for several years to come. However, if something was to happen and the two companies were to separate ways, a lot of the upside potential would be taken away from the investment case. In any case, based on our discussions with Netmarble EMEA's CEO, we are confident with the continuation of the partnership for now.

Financial forecasts

Sales

We expect Nitro's sales to increase by 97% in 2019 on the back of the company publishing 'Heroes of Warland' in November 2018 and Netmarble EMEA publishing the game in the MEA region in H1 2018. We expect the game to keep growing for the next four years, but factor in no blue sky scenario. We expect Nitro to outpace revenue growth in the smartphone/tablet game market. We expect the company's CAGR of 20.5% between 2020 and 2027 vs. Newzoo estimate of the mobile market CAGR of 17.4% between 2017 and 2021. We factor in decreasing rate of growth from 45% in 2020 to 14% in 2027 for Nitro. However, in a hit driven industry such as gaming, these growth figures are merely indicative.

Profitability

Nitro was loss making in 2017 and we expect cash burn to continue until the end of 2018. 'Heroes of Warland' was released in November and it is typical that in the first few weeks of a launch UA is ramped up so that players find the game. We expect clean EBIT of a loss of EUR 4.3 m for 2018. In our probability weighted scenario estimates for 2019 and 2020, clean EBIT will be negative EUR 2.4m and negative EUR 1.2m, respectively, meaning that cash burn declines, but does not stop completely. This estimate is heavily dependent on the reception of 'Heroes of Warland'. If UA works well and CPI is low, the company could achieve profitability faster than we expect.

Income Statement											
(EURm)	Q4/17	Q1/18	Q2/18	Q3/18	Q4/18E	2017	2018E	2019E	2020E	2021E	2022E
Revenues	0.5	0.6	0.5	0.7	0.9	1.7	2.7	5.4	7.8	10.0	11.2
Total expenses	2.0	1.5	1.7	1.6	1.6	4.3	6.4	7.2	8.4	9.6	10.2
Change in finished goods and work in process	0.6	0.0	0.0	0.0	0.0	0.6	0.0	0.0	0.0	0.0	0.0
Materials and Services	0.3	0.3	0.3	0.4	0.4	0.7	1.4	2.3	2.9	3.5	3.8
Personnel Expenses	0.5	0.5	0.6	0.5	0.5	1.3	2.2	2.2	2.4	2.5	2.7
Other Operating Costs	0.6	0.7	0.8	0.7	0.7	1.7	2.9	2.7	3.1	3.6	3.8
EBITDA	-1.5	-1.0	-1.2	-0.8	-0.7	-2.5	-3.7	-1.7	-0.5	0.5	1.1
EBITDA (%)	-282.6%	-167.0%	-250.7%	-111.6%	-74.3%	-145.0%	-135.1%	-32.4%	-7.0%	5.4%	9.9%
D&A	0.2	0.2	0.2	0.2	0.2	0.7	0.6	0.6	0.6	0.6	0.6
EBIT	-1.6	-1.1	-1.4	-1.0	-0.8	-3.2	-4.3	-2.4	-1.2	-0.1	0.5
EBIT (%)	-312.9%	-194.4%	-283.2%	-132.7%	-91.3%	-184.1%	-158.2%	-44.3%	-15.2%	-0.9%	4.2%
Pre-tax profit	-1.7	-1.1	-1.4	-1.0	-0.8	-3.3	-4.3	-2.4	-1.2	-0.1	0.5
Net profit	-1.7	-1.1	-1.4	-1.0	-0.8	-3.3	-4.3	-2.4	-1.2	-0.1	0.4

Source: SEB

Balance sheet

At the end of 2018 we expect Nitro's short-term and long-term interest bearing debt of EUR 0.1m and EUR 0.23m, respectively. We estimate cash of around EUR 4m. Therefore, the balance sheet is in reasonable condition after the previous directed share issue which took place in October 2018. However, cash burn cannot increase. We expect the company to remain in loss for 2019 (clean EBIT of negative EUR 2.4m) and 2020 (clean EBIT of negative EUR 1.2m), but we expect profitability to gradually improve in our scenario based analysis. The company performed directed share issues in 2018 and 2017 and additional share issues cannot be ruled out. However, this depends greatly on the success of 'Heroes of Warland' and the effectiveness of games monetisation and the price of its UA. Over the long-term we assume EBITDA and EBIT margins to increase to 21% and 13%, respectively (i.e. close to peer averages).

Valuation

We initiate coverage with a target price of SEK 88.6 and Buy rating

Our target price of SEK 88.6 is based on DCF valuation (using EUR/SEK rate as of 18 Dec). Our model assumes sales growth of 45% in 2020, 30% in 2021, and 24% in 2022. After this we assume that the growth rate will gradually decline to 14% in 2027. There is little visibility in long-term revenue growth of such a small young company. The smart phone game market is estimated to increase at a CAGR of 16% between 2018 and 2021 according to Newzoo. As elaborated above, Nitro starts off from a low base of sales and has a strong partner network to support its growth, making our targets achievable in our view.

In our model, company profitability improves gradually. Cash burn is reduced significantly in 2019/2020 before breaking even in 2021/2022. Break-even is possible earlier, but is dependent on a) success of the company's recently launched games in the Western markets, b) Netmarble's efforts in achieving critical mass of gamers onto Nitro's games it has published, and c) the choice between balancing revenue growth vs. profitability by Nitro's management when driving user acquisition investments.

DCF Summary

DCF valuation (EURm)		Weighted average cost of capital (%)	
NPV of FCF in explicit forecast period	0	Risk free interest rate	2.5
NPV of continuing value	27	Risk premium	4.0
Value of operation	27	Cost of equity	6.5
Net debt	(4)	After tax cost of debt	2.0
Share issue/buy-back in forecast period	-	WACC	6.5
Value of associated companies	-	Assumptions	
Value of minority shareholders' equity	-	Number of forecast years	10
Value of marketable assets	-	EBIT margin - steady state (%)	12.8
DCF value of equity	31	EBIT multiple - steady state (x)	12.6
DCF value per share (EUR)	8.6	Continuing value (% of NPV)	99.2
Current share price (EUR)	3.80		
DCF performance potential (%)	127		

Source: SEB

DCF Sensitivity

		Cost of equity				
		5.5	6.0	6.5	7.0	7.5
Equity capital weight (%)	80	14	13	12	11	10
	90	12	11	10	9	8
	100	11	10	9	8	7
	100	11	10	9	8	7
	100	11	10	9	8	7
		Absolute change in EBITDA margin - all years				
		-2%	-1%	0	+1%	+2%
Abs. change in sales growth - all years	-2%	6	7	8	8	9
	-1%	7	7	8	9	10
	0	7	8	9	9	10
	+1%	7	8	9	10	11
	+2%	8	9	10	11	11

Source: SEB

DCF Assumptions

(EURm)	2018E	2019E	2020E	2021E	2022E	Average year 6	Average year 7-8	Average year 9-10
Sales growth (%)	58.6	97.7	45.4	30.0	24.0	22.0	19.0	15.0
EBITDA margin (%)	(135.1)	(32.4)	(7.0)	3.0	6.0	9.0	13.5	19.5
EBIT margin (%)	(158.2)	(44.3)	(15.2)	(5.2)	(2.2)	0.8	5.3	11.3
Gross capital expenditures as % of sales	25.7	13.0	9.0	9.0	9.0	9.0	9.0	9.0
Working capital as % of sales	(0.9)	(0.5)	(0.3)	(0.3)	(0.3)	(0.3)	(0.3)	(0.3)
Sales	3	5	8	10	13	15	20	27
Depreciation	(1)	(1)	(1)	(1)	(1)	(1)	(2)	(2)
Intangibles amortisation	0	0	0	0	0	0	0	0
EBIT	(4)	(2)	(1)	(1)	(0)	0	1	3
Taxes on EBIT	1	0	0	0	0	(0)	(0)	(1)
Increase in deferred taxes	0	0	0	0	0	0	0	0
NOPLAT	(3)	(2)	(1)	(0)	(0)	0	1	2
Gross capital expenditure	(1)	(1)	(1)	(1)	(1)	(1)	(2)	(2)
Increase in working capital	0	0	0	0	0	0	0	0
Free cash flow	(3)	(2)	(1)	(0)	(0)	(0)	1	2
ROIC (%)	(64.6)	(64.6)	(53.9)	(23.0)	(11.5)	4.9	38.6	94.1
ROIC-WACC (%)	(71.1)	(71.1)	(60.4)	(29.5)	(18.0)	(1.6)	32.1	87.6
Share of total net present value (%)	0.0	(7.0)	(3.4)	(1.5)	(0.9)	(0.0)	3.6	10.0

Source: SEB

Peer group valuation

Nitro is a young company at an early phase of its self-publishing strategy. This means that it has significant growth potential, but low earnings visibility. Using our estimates, Nitro is currently trading at EV/Sales (2019) of 2.3x. This is considerably higher than e.g. Rovio or G5 Entertainment, who both trade at 0.6x, but much less than Glu Mobile or large cap peers. In order to justify its current valuation, the company needs to deliver on sales growth. We believe this is likely given the strong start of 'Heroes of Warland' and the pending launch in the MEA region published by Netmarble.

Peer group valuation

	ccy	Price (lcl ccy)	Mkt Cap (USDm)	PER(x)			EV/Sales			Exp. Sales Growth (%)		
				2018E	2019E	2020E	2018E	2019E	2020E	2018E	2019E	2020E
NETMARBLE CORP	KRW	108500	8191.7	39.0	22.7	20.3	3.4	2.6	2.3	-13.7%	29.1%	7.0%
TENCENT HOLDINGS LTD	CNY	302.8	368641.0	36.1	30.3	24.0	8.0	6.1	4.7	31.8%	29.5%	26.2%
ACTIVISION BLIZZARD INC	USD	47.08	35924.4	18.1	17.0	15.0	4.5	4.1	3.5	6.3%	2.9%	8.6%
ROVIO ENTERTAINMENT OY	EUR	4.269	385.6	13.6	10.2	7.5	0.8	0.7	0.6	-3.8%	6.3%	6.0%
G5 ENTERTAINMENT AB	SEK	138.9	138.0	9.0	7.3	6.6	0.7	0.6	0.5	34.2%	15.0%	6.1%
NEXT GAMES OY	EUR	1.21	25.5	n.m.	n.m.	n.m.	0.4	0.4	0.3	10.9%	98.9%	38.7%
ZYNGA INC - CL A	USD	3.7	3189.0	22.3	22.6	17.2	3.0	2.5	2.0	5.5%	16.4%	10.7%
GLU MOBILE INC	USD	7.71	1104.4	28.6	22.7	15.1	n.a.	n.a.	n.a.	29.8%	16.8%	15.8%
Nitro Games	SEK	38.6	15.4	n.m.	n.m.	n.m.	3.7	2.3	1.8	58.6%	97.7%	45.4%
Average				23.8	19.0	15.1	3.0	2.4	2.0	12.6%	26.8%	14.9%
Median				22.3	22.6	15.1	3.0	2.5	2.0	8.6%	16.6%	9.6%
	2018E	EV/EBITDA		EV/EBIT			EBIT margin (%)			Share price performance (%)		
		2019E	2020E	2018E	2019E	2020E	2018E	2019E	2020E	1M	3M	12M
NETMARBLE CORP	20.4	11.0	9.4	26.0	13.1	11.4	13.2%	19.5%	19.9%	-11.8	-2.3	-42.9
TENCENT HOLDINGS LTD	21.2	18.0	14.1	25.2	21.8	16.9	31.8%	28.0%	28.0%	4.0	-4.8	-23.0
ACTIVISION BLIZZARD INC	12.5	10.9	9.0	13.2	11.9	9.5	34.2%	34.6%	37.2%	-4.2	-40.9	-28.3
ROVIO ENTERTAINMENT OY	4.8	3.8	2.7	7.2	4.6	2.9	11.0%	14.3%	18.7%	-14.6	-10.1	-54.8
G5 ENTERTAINMENT AB	4.2	3.4	2.7	7.2	5.6	4.1	9.7%	10.4%	11.9%	-11.7	-54.3	-53.9
NEXT GAMES OY	n.m.	n.m.	17.5	n.m.	n.m.	68.4	n.m.	n.m.	0.4%	-21.4	-69.8	-86.1
ZYNGA INC - CL A	15.0	13.3	10.1	16.0	14.8	9.9	19.0%	16.8%	20.7%	7.6	-8.0	-8.9
GLU MOBILE INC	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	9.8%	11.5%	n.m.	12.4	1.6	89.9
Nitro Games	n.m.	n.m.	n.m.	n.m.	n.m.	n.m.	n.m.	n.m.	n.m.	-29.8	-25.8	-21.4
Average	13.0	10.1	9.3	15.8	12.0	17.6	18.4%	19.3%	19.5%	-5.0	-23.6	-26.0
Median	13.8	11.0	9.4	14.6	12.5	9.9	13.2%	16.8%	19.9%	-7.9	-9.0	-35.6

Source: SEB

Company profile

From work-for-hire...

Nitro Games (Nitro) was founded in 2007 initially as part of a digital media studio called Nitro FX. Antti Villanen and Jussi Tähtinen are co-founders of the company. Nitro was spun off in 2009. Nitro is headquartered in Kotka, Finland, and has another office in Helsinki. Initially, Nitro focused mainly on work-for-hire and other development projects on PC where game publishers paid royalty payments depending on the success of the game. In 2013 Nitro started to develop its first mobile game and began developing its NG Platform to support future mobile launches.

...to publishing

In 2017 the company changed its strategy. The new strategy has three dimensions:

- Steady cash flow from work-for-hire projects.
- Publish its own games titles in western markets.
- Partner with large publishers in the rest of the world to launch games localised to regional requirements.

Work-for-hire projects include a fixed fee which is recognised as revenue based on milestones. Typically the publisher receives all revenues and pays all costs associated with marketing the game, although there may be a small revenue share element after project costs for the developer. When publishing games in western markets, Nitro keeps all revenue, but also carries all of the marketing and user acquisition costs. In non-western markets Nitro applies a revenue share model with the publisher partner. The partner performs the majority of the marketing and UA costs and pays for the localisation costs.

Management & Ownership

Jussi Tähtinen – CEO, 71 535 shares

Matti Nikkola – CFO, 172 594 shares

Samppa Rönkä – CTO, 10 002 shares

Antti Villanen – Chairman of Board, 129 254 shares

Competitive advantages and sustainability of market position

Below is our assessment of the company's fundamental profile. Porter's Five describes the industry dynamics and how the company has specifically positioned itself in the market. Quality Profile describes perceived company quality on product and management level. In addition, it highlights financial risk and the degree of visibility into future revenues and earnings. In the SWOT analysis we have highlighted key considerations for the company when it comes to sustainability of competitive advantages and market position.

Porter's Five Forces

Porter's Five	low	mid	high
Industry Competition			X
Threat of New Entrants			X
Supplier Power	X		
Customer Power	X		
Threat of Substitutes			X

Source: SEB

Quality Profile

	low	mid	high
Uniqueness of Product		X	X
Management Quality		X	
Structure of Growth			
Earnings Visibility	X		
Balance Sheet Strength	X		

Source: SEB

Strengths

- Partnership with Netmarble.
- Proven ability to successfully launch games,
- Entrepreneurial management involved with day to day business,
- Strong experience in work-for-hire projects, - Ability to use influencer marketing to generate organic UA
- Collaborative corporate culture

Weaknesses

- Profitability is currently low,
- Future growth relies partly on new releases, - Low resources to spend on paid UA

Opportunities

- Achieving virality with Heroes of Warland,
- Potential to learn from partners' analytics and UA methods,
- Netmarble co-operation opens Asian markets,
- Small successes are big for such a small firm,

Threats

- Incontrollable growth could hamper future projects,
- Netmarble co-operation failure,
- Equity owners growing impatient with poor profitability,
- Inability to secure new work-for-hire projects would decrease earnings visibility,
- Running out of cash
- Loss of key employees / inability to hire new ones due to "remote location" or lack of resources

Games portfolio

Medals of War (Western version)

- Owned by Nitro and the first mobile game to be published by the company.
- Released for iOS on 19 September 2017 and for Android on 21 March 2018.
- The user score in the Apple App Store is 4.7/5, while in the Google Play store the user score is 4.5/5.

Medals of War (Eastern version)

- In accordance with Nitro's strategy of publishing games with partners in non-western markets, the company partnered with Netmarble EMEA to launch the game in the MEA region.
- Nitro receives 35% and Netmarble EMEA 65% of net revenue after app store fees (30% of gross revenue).
- The game was released for iOS and Android on 5 July 2018.

Heroes of Warland (Western version)

- A competitive multiplayer game for mobile. It is a class based shooter game, where a five player team is pitted against another team.
- Owned by Nitro.
- Released for iOS and Android on 15 November 2018. The game was launched globally, except for the MEA region, China, Macau, Hong Kong, and Taiwan.
- The user score in the Apple App Store is 4.0/5, while in the Google Play store the user score is 3.9/5.

Current game development pipeline

In November 2018 Nitro had two new games in production. One of the projects is a typical work-for-hire case, while the other is Nitro's own IP.

Heroes of Warland MEA

- Nitro and Netmarble EMEA signed a term sheet in October 2018 to launch the game in the Middle-East and Africa in H1 2019. Netmarble will cover the marketing and UA costs in the region, while Nitro carries the responsibility of localising the game according to Netmarble's guidance.
- Nitro receives 35% and Netmarble EMEA 65% of net revenue after app store fees (30% of gross revenue).
- Nitro owns the IP rights for Heroes of Warland.
- **Stage of development:** Western version launched on 15 November 2018. MEA version being localised.
- **Expected launch:** MEA version in H1 2019.

Runegate Heroes

- Runegate Heroes is a competitive multiplayer game for mobile. It combines elements from tower defence, strategy game, and role playing games into a multiplayer battle game.
- Nitro develops the game as a work-for-hire project for Wargaming, a company most famous for 'World of Tanks'.
- Wargaming owns the IP and Nitro develops the game further for project revenues. There is a small revenue share element once project costs have been covered by game revenues.
- **Stage of development:** Game is in soft launch and development nearly complete. Further development contract being negotiated.
- **Expected launch:** 2019

Overview

Investment case

We expect Nitro Games's recent launch 'Heroes of Warland' to drive significant revenue pickup in the short-term. Nitro Games has been able to form promotion co-operation for the game with Samsung Electronics America and Huawei. They have promoted the game through a TV series and they have Netmarble EMEA to publish and promote it in the MEA region. Over the long-term we expect Nitro Games to perform more self-publishing and less work-for-hire, which should drive up profitability and scalable growth.

Company profile

Nitro Games is a free-to-play mobile game developer based in Kotka, Finland. Nitro Games has a long history as a work-for-hire partner, but since 2017 has focused on self-publishing. The company has self-published two games, 'Medals of War' in September 2017 and 'Heroes of Warland' in November 2018. The company's strategy is to self-publish games in western markets and partner with large companies in Eastern markets. Thus far Netmarble EMEA has published 'Medals of War' in the MEA region and will publish 'Heroes of Warland' in H1 2019.

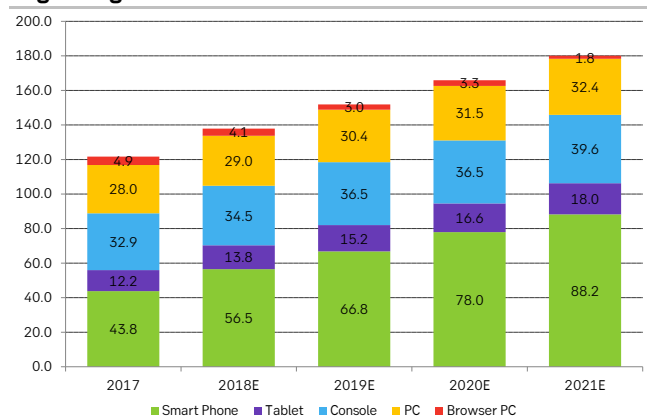
Valuation approach

Our target price is based on DCF. Our model assumes that Nitro Games grows faster than the market over the coming years, reducing cash burn and a breakeven result in approximately 2021.

Target price risks

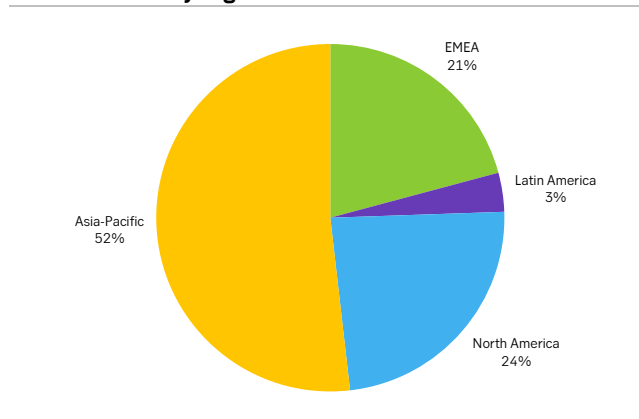
A key short-term risk is that despite signs of a successful launch of 'Heroes of Warland', there may be little evidence that it will be a commercially viable game. If this is the case, the company's growth and profitability would suffer and more directed share issues would be needed. Over the long-term, Nitro Games needs to continue with partnerships. It is challenging for a small company to have its games discovered by gamers without the help of larger peers.

Segment growth 2017 to 2021



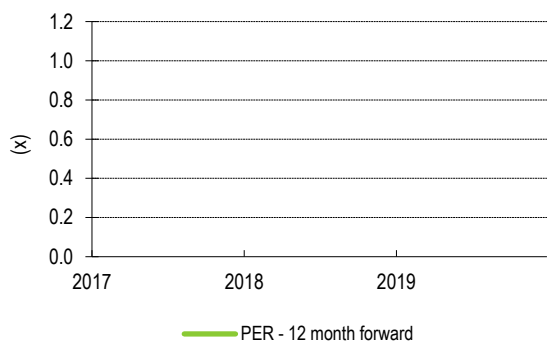
Source: SEB, Newzoo

Games market by region 2018



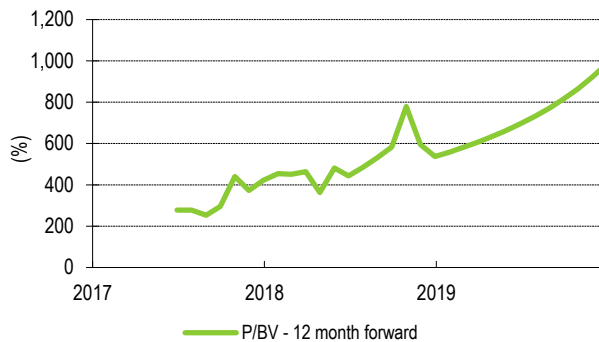
Source: SEB, Newzoo

PER - 12 month forward



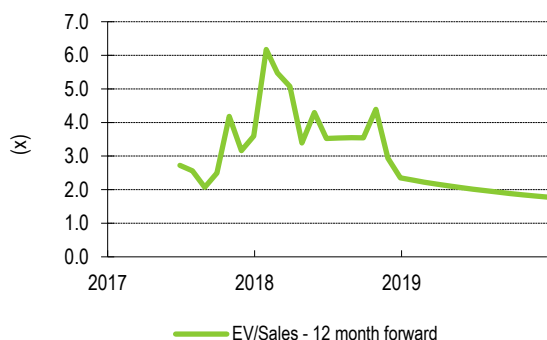
Source: SEB

P/BV - 12 month forward



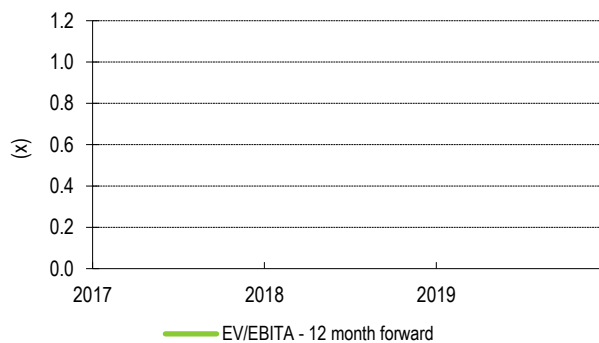
Source: SEB

EV/Sales - 12 month forward



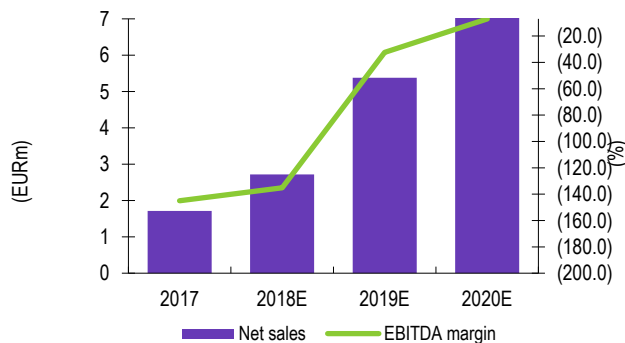
Source: SEB

EV/EBITA - 12 month forward



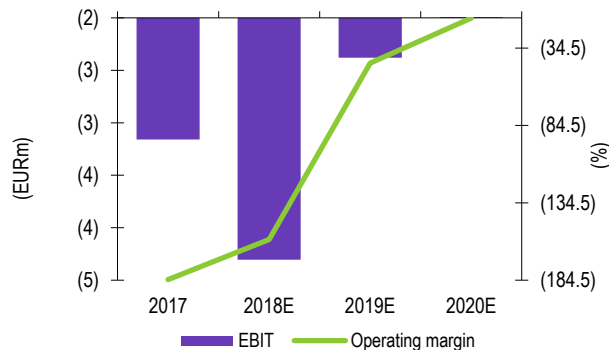
Source: SEB

Net sales & EBITDA margin



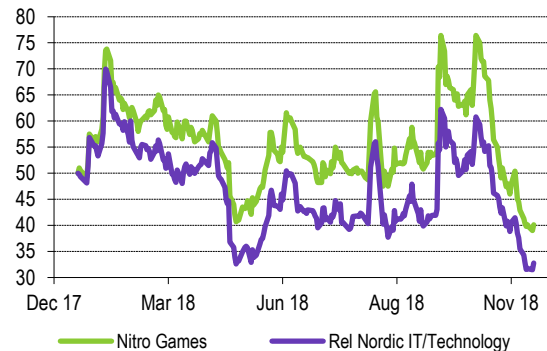
Source: SEB

EBIT & Operating margin



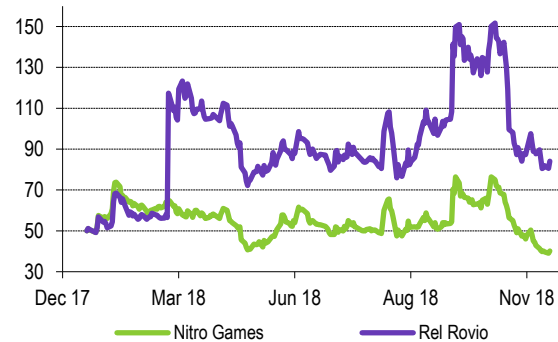
Source: SEB

Comparison with sector index - 1 year



Source: SIX

Comparison with Rovio - 1 year



Source: SIX

Profit & loss statement - Nitro Games				
(EURm)	2017	2018E	2019E	2020E
Net Sales	2	3	5	8
Other revenues	0	0	0	0
Total revenues	2	3	5	8
Total expenses	(4)	(6)	(7)	(8)
Profit before depreciation	(2)	(4)	(2)	(1)
Depreciation - Fixed assets	(1)	(1)	(1)	(1)
Depreciation - Other assets	0	0	0	0
Amortisation - Goodwill	0	0	0	0
Amortisation - Other intangibles	0	0	0	0
Operating profit	(3)	(4)	(2)	(1)
Net interest expenses	(0)	0	0	0
Foreign exchange items	0	0	0	0
Other financial items	0	0	0	0
Value changes - Fixed assets	0	0	0	0
Value changes - Financial assets	0	0	0	0
Value changes - Other assets	0	0	0	0
Reported pre-tax profit	(3)	(4)	(2)	(1)
Minority interests	0	0	0	0
Total taxes	0	0	0	0
Reported profit after tax	(3)	(4)	(2)	(1)
Discontinued operations	0	0	0	0
Extraordinary items	0	0	0	0
Net Profit	(3)	(4)	(2)	(1)
Adjustments:				
Discontinued operations	0	0	0	0
Interest on convertible debt	0	0	0	0
Minority interests (IFRS)	0	0	0	0
Value changes	0	0	0	0
Goodwill/intangibles amortisations	0	0	0	0
Restructuring charges	0	0	0	0
Other adjustments	0	0	0	0
Tax effect of adjustments	0	0	0	0
Adjusted profit after tax	(3)	(4)	(2)	(1)
Margins, tax & returns				
Operating margin	n.m.	n.m.	(44.3)	(15.2)
Pre-tax margin	n.m.	n.m.	(44.3)	(15.2)
Tax rate	0.0	0.0	0.0	0.0
ROE	n.m.	n.m.	(62.5)	(58.7)
ROCE	n.m.	(96.6)	(57.5)	(50.4)
Growth rates y-o-y (%)				
Total revenues	n.a.	54.1	97.0	44.9
Operating profit	n.m.	n.m.	n.m.	n.m.
Pre-tax profit	n.m.	n.m.	n.m.	n.m.
EPS (adjusted)	0.0	0.0	0.0	0.0

Cash flow				
(EURm)	2017	2018E	2019E	2020E
Net profit	(3)	(4)	(2)	(1)
Non-cash adjustments	1	1	1	1
Cash flow before work cap	(3)	(4)	(2)	(1)
Ch. in working capital / Other	(0)	0	0	0
Operating cash flow	(3)	(4)	(2)	(1)
Capital expenditures	0	(1)	(1)	(1)
Asset disposals	0	0	0	0
L/T financial investments	0	0	0	0
Acquisitions / adjustments	0	0	0	0
Free cash flow	(3)	(4)	(2)	(1)
Net loan proceeds	0	0	0	0
Dividend paid	0	0	0	0
Share issue	0	6	0	0
Other	0	0	0	0
Net change in cash	(3)	2	(2)	(1)
Adjustments				
C/flow bef chng in work cap	(3)	(4)	(2)	(1)
Adjustments	0	0	0	0
Int on conv debt net of tax	0	0	0	0
Cash earnings	(3)	(4)	(2)	(1)
Per share information				
Cash earnings	(1.53)	(1.33)	(0.48)	(0.15)
Operating cash flow	(1.69)	(1.29)	(0.48)	(0.15)
Free cash flow	(1.69)	(1.54)	(0.68)	(0.35)
Investment cover				
Capex/sales (%)	0.0	25.7	13.0	9.0
Capex/depreciation (%)	0	112	109	109

Source for all data on this page: SEB

Balance sheet - Nitro Games

(EURm)	2017	2018E	2019E	2020E
Cash and liquid assets	2	4	2	0
Debtors	0	0	0	0
Inventories	0	0	0	0
Other	0	0	0	0
Current assets	3	4	2	0
Interest bearing fixed assets	0	0	0	0
Other financial assets	0	0	0	0
Capitalized development cost	2	2	2	2
Goodwill	0	0	0	0
Other intangibles	0	0	0	0
Fixed tangible assets	0	0	0	0
Other fixed assets	0	0	0	0
Fixed assets	2	2	2	2
Total assets	4	6	3	2
Creditors	0	0	0	0
Other trade financing	0	0	0	0
S/T interest bearing debt	0	0	0	0
Other	0	0	0	0
Current liabilities	0	0	0	0
L/T interest bearing debt	0	0	0	0
Other long-term liabilities	0	0	0	0
Convertible debt	0	0	0	0
Pension provisions	0	0	0	0
Other provisions	0	0	0	0
Deferred tax	0	0	0	0
Long term liabilities	1	1	1	1
Minority interests	0	0	0	0
Shareholders' equity	3	5	3	1
Total liabilities and equity	4	6	3	2
Net debt (m)	(2)	(4)	(1)	(0)
Working capital (m)	0	(0)	(0)	(0)
Capital employed (m)	4	5	3	2
Net debt/equity (%)	(63)	(77)	(53)	(11)
Net debt/EBITDA (x)	0.8	1.0	0.8	0.3
Equity/total assets (%)	76	86	77	64
Interest cover	(17.4)	0.0	0.0	0.0

Valuation

(EUR)	2017	2018E	2019E	2020E
No of shares, fully dil. (y/e)	2.3	3.6	3.6	3.6
No of shares, fully dil. avg.	1.7	2.8	3.6	3.6
Share price, y/e	57.5	40.1	40.1	40.1
Share price, high	67.8	78.8		
Share price, low	33.6	37.4		
Share price, avg	44.7	55.9		
EPS (reported)	(1.91)	(1.56)	(0.66)	(0.33)
EPS (adjusted)	(1.91)	(1.56)	(0.66)	(0.33)
Cash earnings/share	(1.53)	(1.33)	(0.48)	(0.15)
Dividend/share	0.00	0.00	0.00	0.00
Enterprise value/share	5.0	2.8	3.5	3.9
Book value/share	1.4	1.4	0.7	0.4
Adjusted equity/share	1.4	1.4	0.7	0.4
PER (adjusted)	n.m.	n.m.	n.m.	n.m.
CEM	(3.8)	(2.9)	(8.1)	(25.7)
Dividend yield	0.0	0.0	0.0	0.0
EV/EBITDA	(4.7)	(2.8)	(7.3)	(25.4)
EV/EBITA	(3.7)	(2.4)	(5.3)	(11.7)
EV/EBIT	(3.7)	(2.4)	(5.3)	(11.7)
EV/Sales (x)	6.75	3.75	2.35	1.78
Price/Book value	4.19	2.81	5.37	9.83
Price/adjusted equity	4.19	2.81	5.37	9.83
Free cash flow/Market cap (%)	(28.9)	(39.6)	(17.4)	(8.9)
Operating cash flow/EV (%)	(25.5)	(34.8)	(13.8)	(3.9)
EV/Capital employed (x)	3.2	1.9	4.3	7.9

Main shareholders

Main shareholders			Management		Company information	
Name	(%)	Votes	Capital	Title	Name	Contact
Jasperus S.A.	15.4		15.4	COB	Antti Villanen	Internet https://www.nitrogames.com
Savox Investments	12.0		12.0	CEO	Jussi Tähtinen	Phone number +358 44 082 2268
Swebank Robur NY Teknik	9.6		9.6	CFO	Matti Nikkola	
				IR		

Source for all data on this page: SEB

Target prices and risks

Target price definition and associated risks

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

Our current target price of SEK 88.6 was set today (19 Dec 2018). The main risk to our target price on Nitro Games is as follows. A key short-term risk is that despite signs of a successful launch of 'Heroes of Warland', there may be little evidence that it will be a commercially viable game. If this is the case, the company's growth and profitability would suffer and more directed share issues would be needed. Over the long-term, Nitro Games needs to continue with partnerships. It is challenging for a small company to have its games discovered by gamers without the help of larger peers.

Risk levels

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

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

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A copy of this report, not including the recommendation, has been provided to the issuer prior to its dissemination to check factual statements for accuracy; as a result, some amendments have been made.

Additional recommendation history for the issuer is available at <https://research.sebgroup.com/equity>

A full list of disclosures for other companies mentioned herein (in which SEB has research coverage), can be found on our SEB Research website

Methodology

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

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

Current recommendation for Nitro Games - Buy - was set on 18 Dec 2018. The dates of previous recommendation changes in relation to Nitro Games can be found on our Research Online website.

SEB's standardised recommendation structure

	Consolidated distribution as per 30 Sep 2018 (%)	Clients to whom SEB has provided material investment services, last 12M (%)	Clients from whom SEB has received investment banking income, last 12M (%)
Buy	49.6	19.2	10.2
Hold	40.4	9.2	6.7
Sell	10	1.2	2.3

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

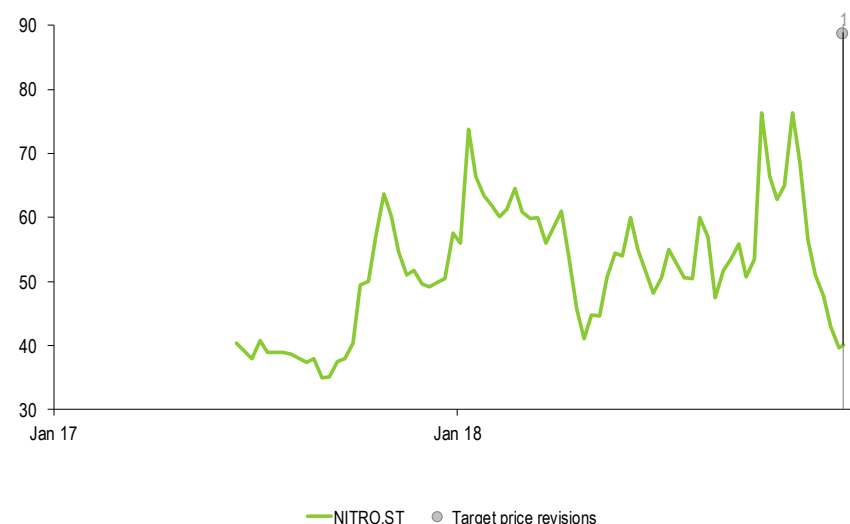
Source: SEB

Please note, in the chart to the right:

- 1=Buy
- 2=Hold
- 3=Sell

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

Target price and recommendation revision history



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Copenhagen

Bernstorffsgade 50
P.O. Box 100
DK-1577 Copenhagen V

Telephone: (45) 3328 2828

London

One Carter Lane
London, EC4V 5AN

Telephone: (44) 20 7246 4000

Tallinn

Tornimäe 2
EE-Tallinn 15010

Telephone: (372) 665 7762

Frankfurt

Stephanstrasse 14-16
D-60313 Frankfurt am Main

Telephone: (49) 69 9727 7740

New York

245 Park Avenue, 33rd Floor
New York
NY 10167

Telephone: (1) 212 692 4760

Helsinki

Eteläesplanadi 18
P.O. Box 630
FIN-00101 Helsinki

Telephone: (358) 9 616 28700

Oslo

Filipstad Brygge 1,
P.O. Box 1363 Vika
NO-0113 Oslo

Telephone: (47) 2100 8500

Hong Kong

17/F Jardine House
1 Connaught Place
Central, Hong Kong Island
Hong Kong

Telephone: (852) 3919 2600

Stockholm

Kungsträdgårdsgatan 8
S-106 40 Stockholm

Telephone: (46) 8 522 29500