

G5 ENTERTAINMENT

Price (SEK): 297,60

NASDAQ OMX Mid Cap

Consumer goods & services

- Sales in line with guidance
- Clear increase in user acquisition
- Higher sales but lower EBIT forecasted

Sales in line with guidance. G5 Entertainment reported net sales of SEK 357 million (185), corresponding to 93 percent y/y growth and in line with what was already communicated. Our initial estimate had been SEK 325 million, and was therefore exceeded. The growth was driven by Hidden City and the portfolio of own games, which actually grew faster than the licensed games, and this was also reflected in the higher gross margin. Geographically, growth in Asia stood out on the positive side and the higher average monthly revenue per paying user of USD 42.7 (37.5) suggests that Japan had the very best performance.

Clear increase in user acquisition. EBIT amounted to SEK 15.9 million (7.3), corresponding to an operating margin of 4.5 percent (4.0). This was substantially below our estimate of SEK 35.7 million with a margin of 10.0 percent. This variation is mainly attributable to much higher user acquisitions than we predicted. In the quarter, G5 spent 34 percent (25.5) of sales on user acquisitions, while we had calculated on 26.5 percent. Other smaller variations were a higher gross margin and higher net capitalisation than expected. This is the second consecutive year that we have seen this increase in user acquisitions in the fourth quarter, and we assume it is an especially favourable quarter for the company to expand its user base. During the teleconference, the CEO stated that this should be seen as a maximum level of user acquisitions and that they expect higher margins in future quarters, similar to developments in 2017.

Higher sales but lower EBIT forecasted. Following the report, we have upwardly adjusted our sales estimates for 2018 and 2019, by 9 and 10 percent respectively. The reason is that we have increased our expectations for the own games portfolio. Nevertheless, we are cutting our forecast for EBIT 2018 and 2019, by 6 and 4 percent respectively as we expect the growth will require higher user acquisition costs than in previous forecasts. The gross margin is expected to strengthen due to the growth of own games and because Secret Society is now fully owned.

COMPANY DESCRIPTION

G5 Entertainment develops and publishes casual games on mobile platforms. The games can be downloaded for iPhone, iPad, Mac, Android and Kindle Fire. The portfolio includes popular casual games like Secret Society, Hidden City and Mahjong Journey.

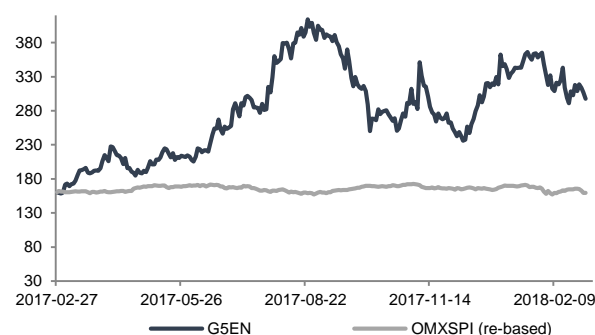
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KEY DATA		SHARE PERFORMANCE	
Market Cap (SEKm)	2 619	1 m (%)	-9,4
Net Debt (SEKm)	-83,6	3 m (%)	26,7
Enterprise Value (SEKm)	2 535	12 m (%)	84
Equity Ratio (%)	54,4	YTD (%)	-1
No. of shares basic (m)	8,8	52-W High	417
No. of shares diluted (m)	9,2	52-W Low	165,0
Free Float (%)	100	Ticker	G5EN

	2016A	2017A	2018E	2019E
Sales (SEKm)	517	1 135	1 505	1 761
EBITDA (SEKm)	71,0	146,5	235	297
EBIT (SEKm)	38,1	101,7	160	204
EBT (SEKm)	38,1	101,9	159	204
Adj. EPS (SEK)	4,43	10,18	14,75	18,90
DPS (SEK)	0,75	2,50	3,60	4,70
Revenue growth (%)	34,5	119,7	32,6	17,0
EPS growth (%)	117	169	52	28,1
EBIT-margin (%)	7,4	9,0	10,6	11,6

	2016A	2017A	2018E	2019E
P/E (x)	27,0	32,7	20,2	15,7
P/BV (x)	5,6	12,7	7,9	5,6
EV/S (x)	1,6	2,4	1,7	1,4
EV/EBIT (x)	18,9	28,2	15,6	11,6
Div Yield (%)	0,7	0,8	1,2	1,6

SHARE PERFORMANCE



Sources: Infront, Company reports, Remium Nordic, Holdings

MAJOR SHAREHOLDERS	CAPITAL	VOTES
Swedbank Robur	9,7%	9,7%
Avanza Pension	7,6%	7,6%
Wide Development Limited	7,1%	7,1%
Purple Wolf Ltd	6,0%	6,0%

MANAGEMENT		FINANCIAL CALENDER	
COB	Petter Nylander	1Q-report	2018-05-03
CEO	Vlad Suglovov	2Q-report	2018-07-27
CFO	Stefan Wikstrand	3Q-report	2018-11-06

INCOME STATEMENT

SEKm	1Q17A	2Q17A	3Q17A	4Q17A	1Q18E	2Q18E	3Q18E	4Q18E	2015A	2016A	2017A	2018E	2019E	2020E
Sales*	234	276	268	357	361	370	378	396	384	517	1 135	1 505	1 761	2 025
COGS*	-121	-142	-136	-178	-172	-175	-177	-184	-201	-271	-578	-707	-807	-911
<i>Of which royalties</i>	-51,0	-59,3	-55,0	-69,5	-63,2	-63,6	-63,9	-65,0	-85,6	-116,4	-235	-256	-278	-304
Gross profit	113	133	132	179	190	195	201	212	183	246	558	798	954	1 114
Operating costs	-92,0	-101,4	-99,4	-163	-150	-152	-154	-183	-163	-208	-456	-638	-750	-864
<i>Of which user acquisitions</i>	-59,7	-70,5	-64,8	-120	-103	-104	-104	-131	-74	-106	-315	-441	-518	-597
<i>Of which EO (Inc impairment)</i>	-0,2	0,0	-1,8	-2,2	0,0	0,0	0,0	0,0	-8,2	-5,7	-4,2	0,0	0,0	0,0
EBIT	21,1	32,1	32,6	15,9	39,7	43,3	47,0	29,8	19,8	38,1	102	159,7	204	250
Net financials	0,0	0,0	0,0	0,1	-0,1	-0,1	-0,1	-0,1	0,0	0,0	0,1	-0,3	-0,3	-0,3
EBT	21,1	32,1	32,6	16,0	39,6	43,2	46,9	29,7	19,8	38,1	102	159	204	250
Taxes	-2,4	-3,1	-4,8	-2,3	-5,9	-6,5	-7,0	-4,5	-4,4	-4,8	-12,6	-23,9	-30,6	-37,5
Net result	18,7	29,0	27,9	13,7	33,6	36,7	39,9	25,2	15,3	33,3	89,3	135,5	174	213
EPS basic (SEK)	2,12	3,30	3,17	1,56	3,82	4,17	4,53	2,87	1,7	3,8	10,1	15,4	19,7	24,1
EPS diluted (SEK)	2,04	3,16	3,03	1,50	3,66	4,00	4,34	2,75	1,7	3,8	9,7	14,8	18,9	23,1
Revenue growth Q/Q	26,9%	17,7%	-2,8%	33,0%	1,2%	2,4%	2,3%	4,7%	N/A	N/A	N/A	N/A	N/A	N/A
Revenue growth Y/Y	131,6%	164,1%	112,2%	93,1%	54,0%	34,0%	41,0%	11,0%	47,9%	34,5%	119,7%	32,6%	17,0%	15,0%
Gross margin	48,2%	48,4%	49,2%	50,2%	52,5%	52,8%	53,1%	53,6%	47,7%	47,6%	49,1%	53,0%	54,2%	55,0%
EBIT margin	9,0%	11,6%	12,2%	4,5%	11,0%	11,7%	12,4%	7,5%	5,1%	7,4%	9,0%	10,6%	11,6%	12,4%
Adj. EBIT margin*	9,4%	9,9%	11,6%	4,5%	11,0%	11,7%	12,4%	7,5%	8,0%	8,5%	8,5%	10,6%	11,6%	12,4%
Adj. Net margin	8,3%	8,7%	9,8%	3,9%	9,3%	9,9%	10,5%	6,4%	6,8%	7,5%	7,4%	9,0%	9,9%	10,5%

* Adjusted for impairment & other income/cost

CASH FLOW

SEKm	2015A	2016A	2017A	2018E	2019E	2020E
Cash flow b.f. ch. in work.cap.	56	85	135	210	267	323
Change in working capital	-1	5	-9	-7	-3	-1
Cash flow from operating activities	55	90	126	204	263	321
Cash flow from investments	-54	-54	-98	-140	-117	-130
Free cash flow	1	37	27	64	147	191
Cash flow from financing	0	0	-5	-22	-32	-41
Net cash flow	1	37	22	42	115	150

PER SHARE DATA & RETURN ON CAPITAL

SEK	2015A	2016A	2017A	2018E	2019E	2020E
EPS	1,7	3,8	9,7	15,4	19,7	23,1
Adj. EPS	2,7	4,4	10,2	15,4	19,7	23,1
BVPS	14,0	18,3	25,1	37,5	52,9	71,5
CEPS	6,2	10,2	13,7	22,2	28,7	35,0
DPS	0,0	0,8	2,5	3,6	4,7	5,7
ROE	13%	23%	46%	47%	42%	37%
Adj. ROE	13%	23%	46%	47%	42%	37%
Equity Ratio	70%	62%	54%	63%	67%	71%

BALANCE SHEET

SEKm	2015A	2016A	2017A	2018E	2019E	2020E
Intangible assets	97	111	115	181	204	225
Cash and cash equivalent	34	71	91	133	248	398
Total assets	177	260	424	550	722	928
Equity	123	161	230	344	486	657
Net debt	-34	-68	-84	-125	-240	-390
Net working capital	-14	-33	-3	4	7	8

SHARE STRUCTURE

	2015A	2016A	2017A	2018E	2019E	2020E
Class A (m)			-			
Class B (m)			8,8			
No. of shares (m)			8,8			

COMPANY CONTACT

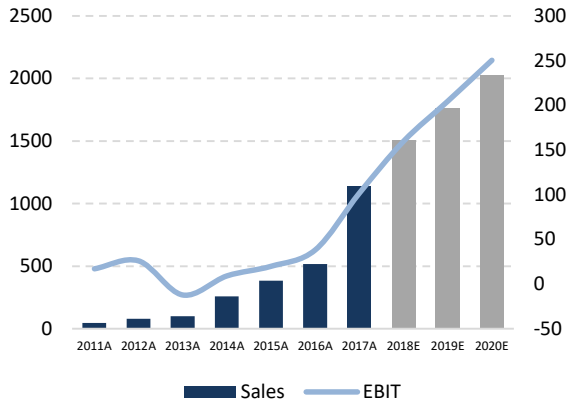
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ESTIMATE CHANGES

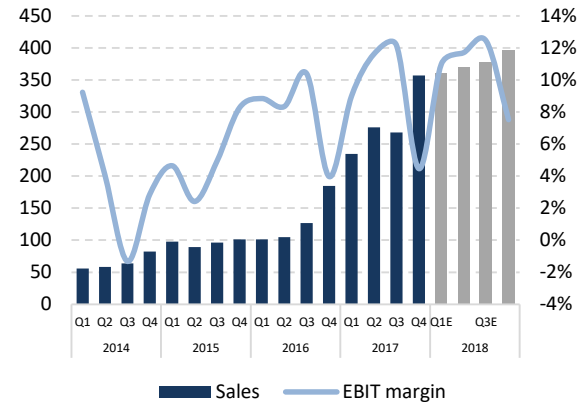
SEKm	4Q 2017E			2018E			2019E			
	Estimate	Actual	Difference (%)	Prev.	New	Change (%)	Prev.	New	Change (%)	
Sales		356	357	0%	1384	1505	9%	1606	1 761	10%
EBIT		35,7	15,9	-55%	170	160	-6%	212	204	-4%
EPS (SEK)		3,49	1,56	-55%	16,40	15,40	-6%	20,46	19,72	-4%

INCOME STATEMENT, YEAR & QUARTER

SALES & OPERATING INCOME, Y/Y (SEKm)

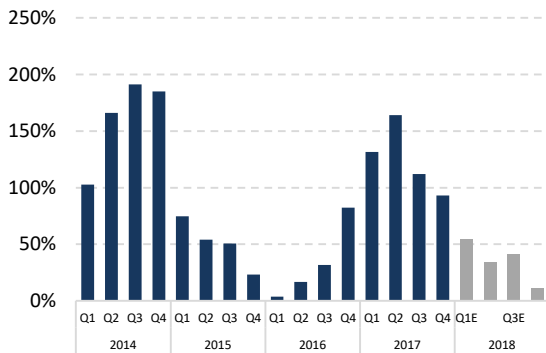


SALES & OPERATING MARGIN, Q/Q (SEKm)

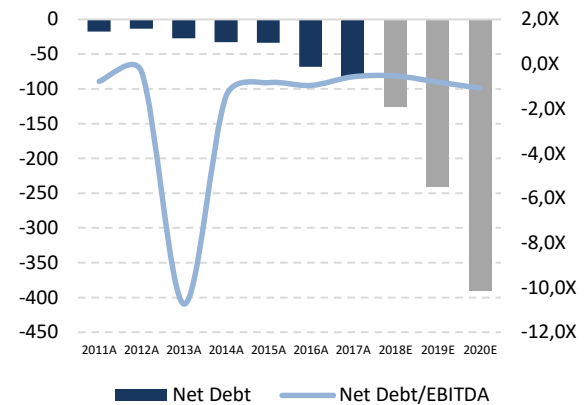


GROWTH & BALANCE SHEET

SALES GROWTH, Y/Y

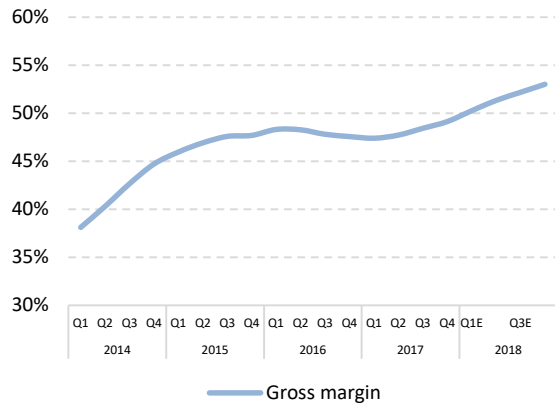


NET DEBT & NET DEBT/EBITDA

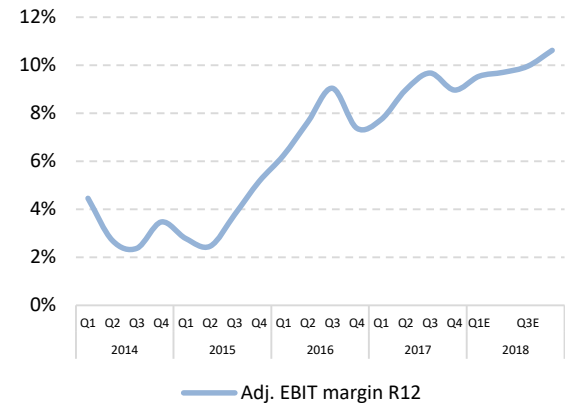


MARGIN DEVELOPMENT, ROLLING 12m

GROSS MARGIN (R12m)

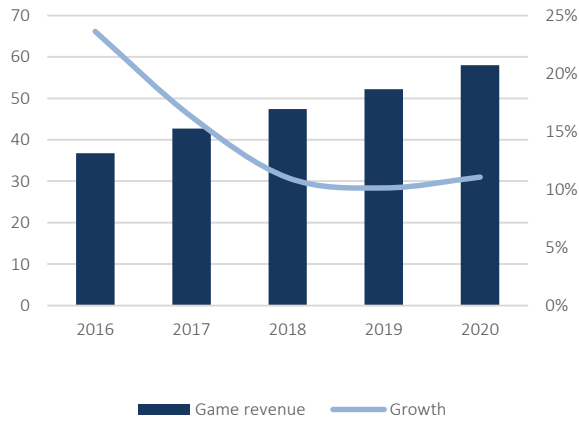


EBIT MARGIN (R12m)



MARKET & COMPANY SPECIFIC

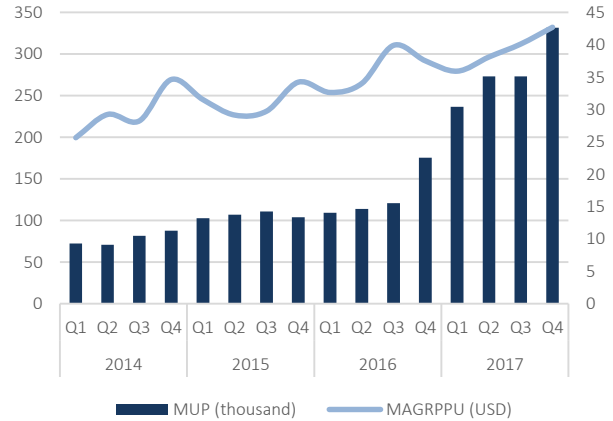
Global mobile game revenues (USDbn)



Source: Newzoo

Newzoo forecasts that the global mobile gaming market will achieve sales of USD 58 billion in 2020, as illustrated by the bars above. The line shows the annual growth rate, and moves from 24 percent in 2016 to 11 percent in 2020.

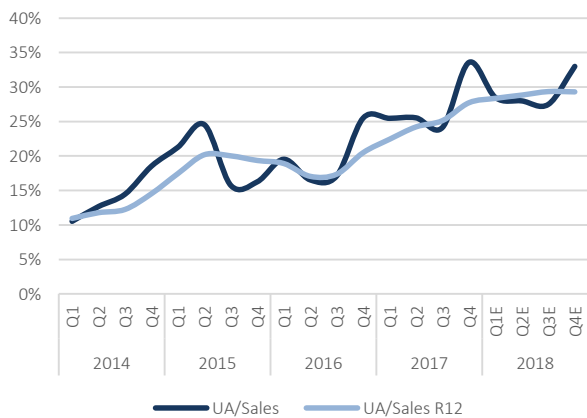
Number of paying players and their monthly purchases



Source: Company reports

The bars illustrate the number of monthly paying users for G5's games, measured in thousands. The line symbolises the average gross revenue for a paying user per month, measured in USD. Quarterly figures are an average of the three months in each particular quarter.

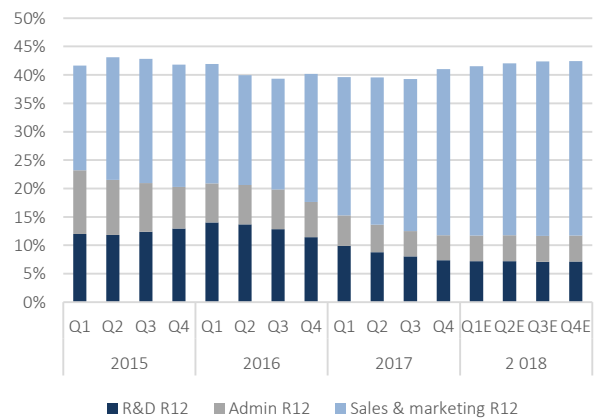
User acquisitions/Sales



Source: Company reports, Remium

This graph shows the variable nature of user acquisitions (dark blue line), and how these have recently increased to a new level just over 25 percent of sales. The reason has been to market the blockbusting Hidden City and more own developed games than previously. In view of the variable nature of the quarterly trend, we believe that user acquisitions should be analysed over the longer term. The light blue line is a suggestion of a more long-term view and shows the trend as rolling twelve months.

Opex/Sales

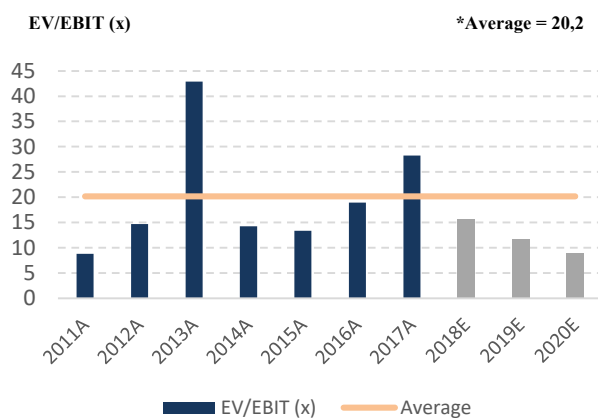
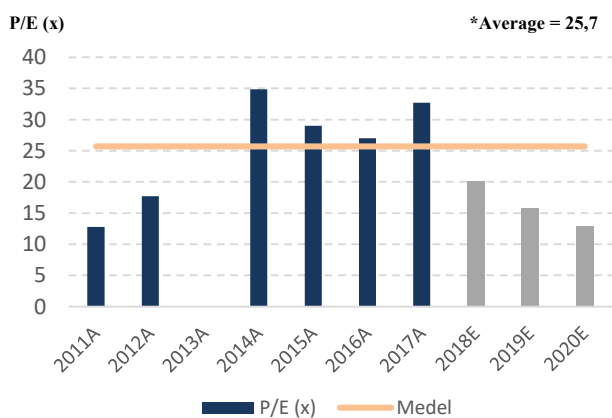


Source: Company reports, Remium

Despite the increasing proportion of user acquisitions, G5 has managed to cut Opex as a share of sales, reflecting good scalability for other cost items. We expect this trend to continue on a long-term basis and we predict that costs will continue to shrink as a percentage of sales, but we expect the user acquisitions to remain high in 2018.

HISTORICAL KEY FIGURES

	2011A	2012A	2013A	2014A	2015A	2016A	2017A	2018E	2019E	2020E	CAGR	L3Y	L5Y
Sales	46	81	100	260	384	517	1 135	1 505	1 761	2 025		63,5%	69,6%
EBIT	17	26	-12	9	20	38	102	160	204	250		124%	31,5%
EPS	1,7	2,8	-1,3	0,8	1,7	3,8	9,7	14,8	18,9	23,1		132%	28,5%
											AVG.	L3Y	L5Y
P/E (x)	12,8	17,7	neg.	34,9	29,0	27,0	32,7	20,2	15,7	12,9		29,6	30,9
EV/EBITDA (x)	6,6	9,9	100,2	8,9	10,1	11,7	18,5	10,6	8,0	6,2		13,5	29,9
EV/EBIT (x)	8,8	14,7	42,9	14,3	13,3	18,9	28,2	15,6	11,6	8,9		20,2	23,5
EV/SALES (x)	3,2	4,7	2,6	0,8	1,1	1,6	2,4	1,7	1,4	1,1		1,7	1,7
P/FCF (x)	83312,5	neg.	neg.	46,7	645,0	24,6	107,5	42,9	18,6	14,3		nmf	nmf
P/BV (x)	3,9	5,9	3,2	2,3	3,6	5,6	12,7	7,9	5,6	4,2		7,3	5,5
ROA (%)	36,1%	33,3%	-12,1%	5,3%	9,5%	15,2%	26,1%	27,8%	27,3%	25,8%		16,9%	8,8%
ROE (%)	43,0%	40,6%	-15,0%	7,0%	13,5%	23,4%	45,6%	47,2%	41,8%	37,2%		27,5%	14,9%
ROCE (%)	55,8%	47,3%	9,9%	13,4%	24,6%	30,5%	52,7%	54,2%	48,4%	43,2%		35,9%	26,2%
ROC (%)	88,3%	66,0%	13,5%	19,4%	34,7%	48,0%	88,3%	87,4%	88,1%	97,7%		57,0%	40,8%
FCF YIELD (%)	0,0%	-1,2%	-7,2%	2,1%	0,2%	4,1%	0,9%	2,3%	5,4%	7,0%		1,7%	0,0%
DIV. YIELD (%)	0,0%	0,0%	0,0%	0,0%	0,0%	0,7%	0,8%	1,2%	1,6%	1,9%		0,5%	0,3%
No. of shares (m)	7,8	8,0	8,8	8,8	8,8	8,8	9,2	9,2	9,2	9,2			
Market Cap (SEKm)	167	393	283	238	444	898	2 798	2 619	2 619	2 619			
EV (SEKm)	149	379	256	205	411	829	2 715	2 494	2 379	2 229			



*Average value is based on historical key figures

G5 ENTERTAINMENT

Free-to-play games for mobile platforms

G5 Entertainment develops and publishes free-to-play games for both smartphones and tablets. The games are family-friendly, easy to learn, and target a wide audience of experienced and inexperienced players. Distribution is achieved digitally through the various app stores of Apple, Google, Amazon and Windows. In addition to its proprietary games, the company also works as a publisher for games licensed from other developers, in which case a royalty is paid to the developer based on the game's sales performance.



G5 Entertainment in brief

The company, which has been listed on Nasdaq OMX since June 2014, is headquartered in Stockholm and has a total of about 350 employees, the vast majority of them located outside Sweden. The unit that deals with intellectual property rights, creative processes and game licensing is located in Malta, while the development offices and studios are located in Moscow and Kaliningrad in Russia, and in Kharkov and Lvov in Ukraine. G5 also has a marketing office in San Francisco, USA. In 2017, G5 had sales of SEK 1,135 million and a profit of SEK 89 million.

The business model focuses on free-to-play

G5's portfolio has about twenty free-to-play games, mainly in the genres of Hidden Object, Puzzle and Time Management. In addition, there is also a large number of so-called unlockable games that are a legacy from a previous business model. The difference between the two game types is that the free-to-play games do not cost the player anything to download, but there are opportunities to buy virtual goods such as time, lives or tools during the game. The unlockable games can be tested free of charge by the player for a period of time, but a one-off fee must then be paid to continue playing. Free-to-play games dominate the market, and the share of G5's revenues generated by these games has grown very significantly and now accounts for over 99 percent of sales.

The games are available for iOS, Android, Kindle Fire, Facebook and devices powered by Windows. They reach the customer through digital stores like Apple's App Store, Google Play and Amazon Appstore. G5 offers proprietary games and is also a publisher for games licensed by other developers. All games developed by the company are based on the proprietary Talisman technology, and this is one of the company's most important competitive advantages. It enables efficient development of innovative and technologically advanced games and, in combination with the company's well-implemented processes, the games can be easily and cost-effectively launched on all Talisman-compatible platforms and translated into 11 languages.

Hidden Object, Puzzle and Time Management main genres

Talisman technology enables cost efficient development

G5 ENTERTAINMENT

Attractive audience

G5's games are aimed at a wide range of players, but the company has chosen to focus particularly on female players over the age of 35. In 2009, G5 realised that this segment of mobile players was neglected by the gaming industry, and began to develop and publish games with a particular focus on this segment. The company quickly gained success with this focus and has built on it since. Competition in the segment is lower than for other parts of the market, but it requires deep understanding of the needs of the audience, which are different than in the traditional gaming market. The company's target group has proven to be loyal players that use G5's games for a year or more and are unlikely to try to circumvent the revenue model for the games.

Clear focus on womens over the age of 35

Time to play

As more and more people use smartphones and tablets, the potential user base is increasing and broadening. An ever-improved gaming experience and the convenience of playing anywhere encourages users to leave their traditional gaming platforms and become mobile. When they do, tablets and smartphones are the fastest growing game platforms in terms of the number of devices. Casual games of the type offered by G5 also help to expand the user base since they are easy to start playing and suit a wider audience than traditional games, in term of both age and gender.

Even the average time each player dedicates to gaming is constantly increasing. About one-third of the total amount of time spent by users of iOS and Android on their mobiles or tablets is devoted to gaming. According to market intelligence company Newzoo, revenues from different types of mobile games are expected to increase from USD 38.6 billion in 2016 to USD 64.9 billion by 2020, corresponding to CAGR of about 14 percent.

CAGR of 14 percent for mobile games is forecasted until 2020



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 Research performed by: Stefan Knutsson, analyst, Remium.

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