

G5 Entertainment

Quarter Update – Q1'15



Share Price	32.2 SEK
Market Capitalisation	283.3m SEK
Target Price	47.1 SEK

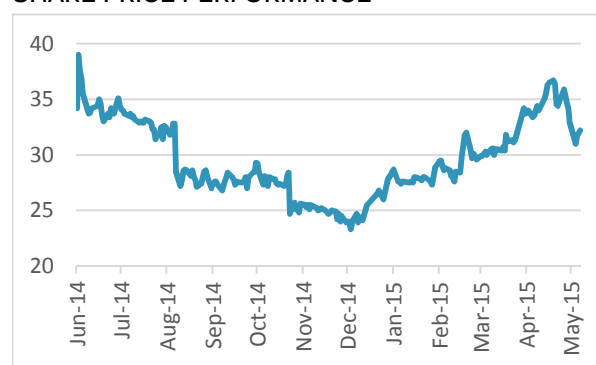
Last updated on the 18/05/2015

Another record quarter

- G5 Entertainment reported their first quarter results on 8th May and the figures were on par with the expectations for a strong quarter.
- Total revenue was 97 551 kSEK – a 75% increase year-over-year, while revenue from free-to-play games was 125% higher than Q1'14.
- The company successfully moved forward with its strategy to acquire further users and try to capture a larger share of the market niche.
- As Prestigo forecasted in its previous report, accumulated number of downloads exceeded 200 million and reached 210 million during the quarter.
- The company announced that it will acquire the game Brave Tribe from the developer. Brave Tribe was originally a 3rd party game published by G5.
- Despite the continuing political instability in Ukraine, the company reports that its operations in Kharkov have not been affected.
- Going forward, we expect G5 to continue to grow at double digit rates and show good profitability. Therefore, we maintain our 'Buy' recommendation at SEK 47.1 per share.

Company	G5 Entertainment
Ticker	G5EN.STO
Currency	SEK
Industry	Mobile games
# of shares	8,800,000
Share price	32.2
Target price	47.1
Risk	Medium
Recommendation	Buy

SHARE PRICE PERFORMANCE



NEXT EVENT

July 24, 2015: Q2'15 Results

CONTACT ANALYSTS

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SEK (Thousand)	2012	2013	2014	2015	2016	2017
Sales	80,928	100,007	182,117	429,224	497,900	577,564
EBITDA	25,861	-11,826	9,014	45,412	52,224	62,669
EBITDA margin	32%	-12%	5%	11%	13%	18%
ROA	25%	-10%	5%	9%	16%	22%
ROE	34%	-13%	7%	12%	21%	28%

TABLE OF CONTENTS

Q1 OVERVIEW 3

VALUATION 5

ESTIMATES..... 5

PEER VALUATION 6

Significant shareholders 7

Disclosure & Disclaimer..... 8

Q1 QUICKVIEW

SEK (thousand)	Q1'15	Q1'14
Revenue	97 551	55 873
Gross profit	46 714	24 315
EBITDA (adj.)	10 268	9 510
EBIT	4 526	5 156

	Q1'15	Q1'14
Revenue growth	75%	42%
Gross margin	48%	44%
EBITDA margin (adj.)	11%	17%
EBIT margin	5%	9%

The company has adopted new reported format and started to include the commission paid to distributors such as Google, Apple or Amazon, which is a common practice in reporting among many other gaming companies.

Profitability was kept modest as the company continues with its strategy to reinvest profits into acquiring new users and fuelling future growth. This puts downward pressure on margins, but at the same time allows G5 to achieve record revenues quarter after quarter.

Free-to-play games grew by 125% (partly due to the new reporting format) and now account for over 80% of the total revenue.

User acquisition costs were kSEK 20 765, which represents 21% of revenue, compared to kSEK 5 894 in Q1'14, when user acquisition only 11% of revenue. This brought EBIT margin to 5% and we expect that the company will try to keep the margin a single digit at least for the next few quarters.

During the previous quarter the company released two new first party games - Survivors: The Quest and Mahjong Journey, which have been well received by the market. Considering that the company has enough staff and significant experience, we expect that going forward first-party games will be the main source of revenue.

Nevertheless, G5 possesses a very strong network of 3rd party developers and continues to seek promising opportunities.

The percentage of revenue paid as royalty to external developers continued to fall during the quarter and reached 23% compared to 26% in the last quarter. If the trend continues, royalties will represent less than 20% of revenue by August 2015.

Overall, G5 continues with its strong growth trajectory and it is one of the fastest growing companies in Sweden. Despite the fierce competition and competitive nature of the industry, the company is fairly stable and its revenues are spread across several games. While risk in the mobile games industry is always high, the company has a significant opportunity and we believe that it will try to capture a meaningful share of the market niche.

VALUATION

DCF Valuation

Scenario	Fair value	Probability
Base	48.30	50%
Worst	35.66	25%
Best	56.12	25%
Weighted Fair Value per share	47.09	

WACC Calculation

Debt to Equity Ratio	0.00%
Cost of Equity	10.00%
Cost of Debt	4.27%
WACC	10.00%

Estimates

SEK (Thousand)	2011	2012	2013	2014	2015	2016	2017
Sales	46,611	80,928	100,007	182,117	429,224	497,900	577,564
EBITDA	17,722	25,861	-11,826	9,014	45,412	52,224	62,669
Share Outstanding	7,613	8,000	8,711	8,800	8,800	8,800	8,800
EBITDA margin	38%	32%	-12%	5%	11%	13%	18%
NIBD/EBITDA	N/A	N/A	N/A	N/A	N/A	N/A	N/A
Debt/Equity	0%	1%	0%	0%	0%	0%	0%
EV/Sales	19	11	9	5	2	2	1
EV/EBITDA	49	33	-73	96	19	17	14
ROIC	32%	34%	-13%	7%	12%	22%	29%
ROA	26%	25%	-10%	5%	9%	16%	22%
ROE	32%	34%	-13%	7%	12%	21%	28%

Peer Analysis

Company	Market cap	PE			
		2012	2013	2014	2015
KING	USD 4264 M	0.00	0.00	7.81	8.77
GLU	USD 375.40 M	0.00	0.00	61.40	44.50
Gameloft	EURO 251 M	48.18	91.00	32.78	20.30
Median		0.00	0.00	32.78	20.30

Company	Market cap	EV/SALES			
		2012	2013	2014	2015
KING	USD 4264 M	0.29	0.21	1.68	1.61
GLU	USD 375.40 M	1.19	2.61	2.01	2.03
Gameloft	EURO 251 M	1.81	2.69	0.94	0.79
Median		1.19	2.61	1.68	1.61

Company	Market cap	EV/EBITDA			
		2012	2013	2014	2015
KING	USD 4264 M	4.28	0.56	4.14	4.26
GLU	USD 375.40 M	(9.17)	(19.06)	17.70	16.80
Gameloft	EURO 251 M	11.58	16.99	17.00	6.29
Median		4.28	0.56	17.00	6.29

Company	Market cap	P/BV			
		2012	2013	2014	2015
KING	USD 4264 M	0.00	0.00	4.97	3.16
GLU	USD 375.40 M	3.90	6.50	2.03	2.06
Gameloft	EURO 251 M	3.40	5.06	1.80	1.65
Median		3.40	5.06	2.03	2.06

Company	Market cap	EV/EBIT			
		2012	2013	2014	2015
KING	USD 4264 M	4.28	0.56	905.00	799.00
GLU	USD 375.40 M	(5.80)	(12.13)	23.50	26.10
Gameloft	EURO 251 M	25.46	26.61	7.90	19.10
Median		4.28	0.56	23.50	26.10

Significant shareholders

Figure 3.0: Top 15 shareholders as of 31.03.2015

	Investor	Number of shares	Shares in %
1	Försäkringsaktiefbolaget Avanza Pension	1,084,435	12.32%
2	Rite Internet Ventures Holding AB	624,197	7.09%
3	Nordnet Pensionsförsäkring AB	619,465	7.04%
4	Wide Development Limited	616,000	7.00%
5	Proxima Limited	562,000	6.39%
6	Swedbank Robur Ny Teknik	550,000	6.25%
7	Purple Wolf Limited	530,000	6.02%
8	Tommy Svensk	403,000	4.58%
9	Peter Lindell	143,673	1.63%
10	Torbjorn Liljedal	114,000	1.30%
11	Altraplan Bermuda Ltd	99,833	1.13%
12	Dennis Svahn	88,000	1.00%
13	SEB Life International Assurance	80,000	0.91%
14	SEB Life International	78,700	0.89%
15	Lennart Wilgotsson	76,500	0.87%

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