

G5 Entertainment

Quarter Update – Q2'16



Share Price	38.4 SEK
Market Capitalisation	337.9 mSEK
Target Price	46.3 SEK

Last updated on the 19/08/2016

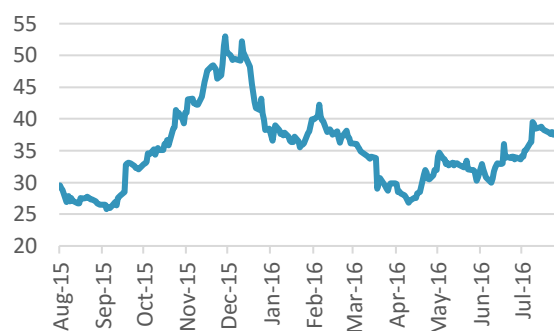
G5 Entertainment develops and sells casual games for different platforms. The company acts as both developer and publisher of their own games as well as actively working with third-party licenses. The company now focuses on Free-To-Play (FTP) games, where players buy virtual goods within the game rather than the old revenue model of unlockables where games are pre-paid.

Continued revenue growth

- G5 Entertainment showed a strong growth in the second quarter of the year – historically the weakest quarter for the company.
- Revenue came to SEK 104.5 M (89.5) – 17% up from Q2 2015, while EBIT for the period was SEK 8.7 M (2.1), an increase of 313% compared to the same period in 2015.
- The massive improvement in EBIT and EPS was driven, not only by the growing revenue, but also by the decision to reduce User Acquisition costs.
- Thus, G5 demonstrated ability to grow in revenue and users without the need to increase paid user acquisition.
- We maintain our STRONG BUY recommendation at an updated price of SEK 46.3 per share.

Company	G5 Entertainment
Ticker	G5EN.STO
Currency	SEK
Industry	Mobile gaming
# of shares	8,800,000
Share price	38.4
Target price	46.3
Risk	Medium
Recommendation	Strong Buy

SHARE PRICE PERFORMANCE



NEXT EVENT

Nov 3, 2016: Q3 2016 Results

CONTACT

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SEK (Thousand)	2013	2014	2015	2016e	2017e	2018e
Sales	100,007	182,117	384,369	439,932	492,724	532,142
EBITDA	(11,826)	9,014	19,788	38,884	46,847	56,323
EPS	-1.34	0.77	1.74	3.41	4.11	4.93
EBITDA margin	-12%	5%	5%	9%	10%	11%
NIBD/EBITDA	N/A	N/A	N/A	N/A	N/A	N/A
EV/Sales	3.15	1.73	0.82	0.72	0.64	0.59
EV/EBITDA	(26.60)	34.90	15.90	8.09	6.72	5.59
ROIC	-13%	7%	13%	20%	19%	19%
ROA	-10%	5%	9%	15%	15%	15%
ROE	-13%	7%	12%	20%	19%	19%

See disclosures at the end of this report.

INVESTMENT SUMMARY

Strong financial performance in historically the weakest quarter of the year

During the second quarter of the year, G5 Entertainment managed to demonstrate growth of 17% compared to the same period last year. The result was partly offset by the declining unlockable games portfolio, which now represents only 8% of the total revenue, but stills contributed positively. The growth within F2P was 23% YoY with an extremely strong performance by Hidden City.

SEK 1,000	Q2 2016	Q2 2015	Change
Revenue	104,469	89,465	17%
Gross profit	49,551	42,457	17%
Gross margin	47%	47%	
EBIT before user acquisition costs	26,004	24,038	8%
EBIT margin before user acquisition costs	25%	27%	-21%
Costs for User acquisition	-17,293	-21,929	
EBIT	8,712	2,108	313%
EBIT-margin (%)	8%	2%	
Earnings per share	0.89	0.05	1590%
Cash and cash equivalents	32,997	30,979	

The growth in the quarter comes despite the decrease in marketing and user acquisition, which proves G5's strong ability to generate revenue and growth even in difficult times. It is entirely possible that the company will continually alternate between lower and higher user acquisition costs in order to find the best strategy for its future releases.

On the cost side, the company had almost unchanged R&D expenditure. User acquisition costs were lower and amounted to SEK 17.3 M (21.9). As a percentage of sales, UA costs decreased from 25% in the second quarter 2015 to 17% in the same period in 2016.

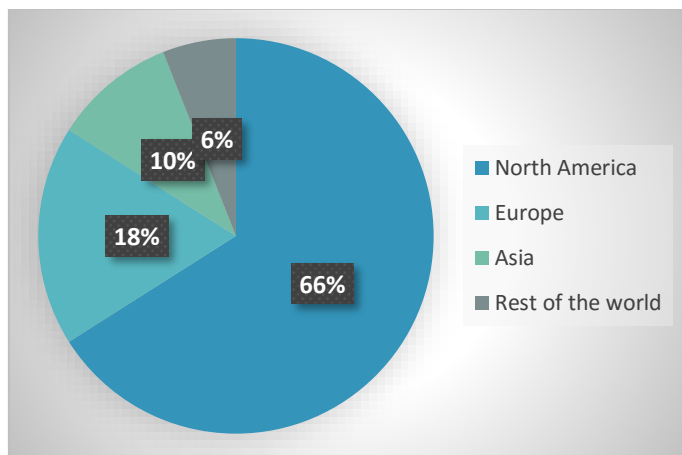
Games portfolio

G5 Entertainment occupies a very unique niche, putting emphasis on females over the age of 35, which is not the traditional gamer audience. According to the company's data, in some of its hidden object and adventure games, women comprise up to 90% of the audience, and 90% of them are over the age of 35. What's more, in some of its games, the core paying audience is females over the age of 55.

However, the company's free-to-play hidden object games seem to be filling in a market niche with increasing demand. In May this year, G5 announce that it has surpassed \$100M in aggregate revenue from hidden object games for the first time in its history.

The company reported an outstanding performance from Hidden City - free-to-play hidden object adventure, which was developed by AB GAMES and published by G5 Entertainment. The game also launched in on the Mac App Store on July 28, 2016, and on the Windows Store on July 29, 2016.

Figure 1:1: Revenue breakdown by geography, Q2 2016



Source: G5 Entertainment, 2016

Over 80% of our revenue comes from North America and the EU, where the demographic trends show that G5's core audience will continue to expand and gain purchasing power in the years to come.

We expect several new games to be released this year, alongside with updates on the G5's already released games. Some of the older games have been put into so called "Harvest Mode". This means that investment in game maintenance will be reduced and profit will be maximized for the sake of bet-ter focus on new and more promising games.

Valuation: great future potential

The company has demonstrated ability to grow regardless of any changes in marketing expenditure, which shows that G5 can thrive in almost any environment. The company is very stable, with a healthy balance sheet, no debt and great growth prospects.

Given the continual growth over the last quarters and the particularly strong performance in Q2 2016, we upgrade our target price to SEK 46.35 per share and reiterate our STRONG BUY recommendation on the company.

Scenario	Fair value	Probability
Base	46.89	50%
Worst	32.93	25%
Best	58.68	25%
Weighted Fair Value per share	44.01	

WACC Calculation	
Debt to Equity Ratio	0.00%
Cost of Equity	10.50%
Cost of Debt	4.27%
WACC	10.50%

ESTIMATES

Profit and loss

SEK (Thousand)	2013	2014	2015	2016	2017	2018
PROFIT & LOSS STATEMENT						
Revenue	100,007	182,117	384,369	439,932	492,724	532,142
Production Cost	(78,925) -79%	(102,091) -56%	(201,094) -52%	(224,365)	(251,289)	(271,392)
Gross Profit	21,082	80,026	183,275	215,567	241,435	260,749
Administrative, Development & Marketing Expenses	(34,342)	(69,584)	(160,690)	(175,152)	(192,667)	(202,301)
Other Operating Income	2,046	1,803	2,549	2,569	2,588	2,608
Other Operating Expense	(612)	(3,231)	(5,346)	(4,099)	(4,509)	(4,734)
Operating Result Before Financial Results	(11,826)	9,014	19,788	38,884	46,847	56,323
Financial Income	85	249	38	120	126	133
Financial Expense	(301)	(646)	(48)	(50)	(53)	(56)
Operating Result After Financial Results	(12,042)	8,617	19,778	38,954	46,920	56,400
Taxes	378 3%	(1,804) 21%	(4,448)	(8,959)	(10,792)	(12,972)
Net Result	(11,664)	6,813	15,330	29,995	36,129	43,428

Balance Sheet

SEK (Thousand)	2013	2014	2015	2016	2017	2018
FIXED ASSETS						
Intangible fixed assets						
Capitalized development costs	48,299	71,680	94,269	99,925	105,921	112,276
Goodwill	2,318	2,302	2,293	2,293	2,293	2,293
	50,617	73,982	96,562	102,218	108,214	114,569
Tangible Fixed Asstes						
Equipment	1,929	2,892	4,634	4,912	5,207	5,519
Deferred Tax	2,105	1,025	2,310	2,310	2,310	2,310
	4,034	3,917	6,944	7,222	7,517	7,829
Total fixed assets	54,651	77,899	103,506	109,440	115,730	122,398
Current assets						
Account receivable	7,156	7,569	9,881	9,642	10,799	11,663
Tax receivable	4,437	0	175	177	180	182
Other receivables	6,915	7,327	3,952	4,268	4,610	4,978
Developer Royalty Advance	0	0	0	0	0	0
Prepaid expenses and accrued income	10,916	21,536	25,197	23,937	22,740	21,603
Cash at bank	27,433	32,864	33,870	58,507	88,952	126,165
Total Current assets	56,857	69,296	73,075	96,532	127,281	164,592
TOTAL ASSETS	111,508	147,195	176,581	205,972	243,012	286,990
Equity						
Share capital	880	880	880	880	880	880
Other capital contribution	54,032	54,032	54,032	54,032	54,032	54,032
Other reserves	22	8,575	8,575	8,575	8,575	8,575
Retained Earnings	34,058	40,871	59,858	89,853	125,981	169,409
Total shareholders' equity	88,992	104,358	123,345	153,340	189,468	232,896
Non-current liabilities						
Deferred tax	0	0	0	0	0	0
Current liabilities						
Account payable	7,478	12,893	12,320	12,294	13,769	14,871
Other liabilities	464	1,593	1,225	1,237	1,250	1,262
Tax liabilities	6,505	2,326	6,438	6,180	5,933	5,696
Accrued expenses	8,069	26,025	33,253	32,920	32,591	32,265
Total current liabilities	22,516	42,837	53,236	52,632	53,543	54,094
TOTAL EQUITY AND LIABILITIES	111,508	147,195	176,581	205,972	243,012	286,990

Top Shareholders

Figure 3.0: Top 15 shareholders as of 30/06/2016

	Name	# shares	% ownership
1	Försäkringsaktiefbolaget Avanza Pension	972,116	11,05%
2	Rite Internet Ventures Holding AB	677,447	7,70%
3	Wide Development Limited	616,000	7,00%
4	Nordnet Pensionsförsäkring AB	590,792	6,71%
5	Proxima LTD	570,000	6,48%
6	Swedbank Robur Ny Teknik	550000	6,25%
7	Purple Wolf Limited	530000	6,02%
8	Tommy Svensk	403,000	4,58%
9	ABG Sundal Collier ASA	276298	3,14%
10	Peter Lindell	143673	1,63%
11	Mattias Ståhlgren	132,000	1,50%
12	Robur Försäkring AB	105,119	1,20%
13	Old Mutual International IOM LTD	100,750	1,14%
14	Calgus	100000	1,14%
15	Altraplan Bermuda Limited	99653	1,13%
	Top 15	5,866,848	66.67%
	Other	2,933,152	33.33%
	Total	8,800,000	100.00%

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