

G5 Entertainment

Quarter Update – Q3'15



Share Price	41.00 SEK
Market Capitalisation	360.8m SEK
Target Price	49.05 SEK

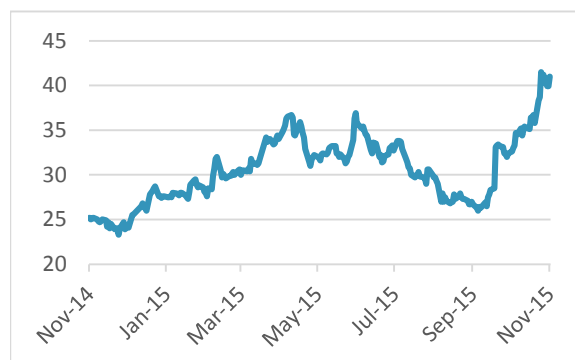
Last updated on the 18/11/2015

Amended strategy and boosted profitability

- G5 Entertainment reported their third quarter results on 6th November and numbers were on par with our expectations.
 - Total revenue was SEK 96.1 M, which is a 55% increase compared to the same period in the previous financial year.
 - During the quarter, the company balanced its user acquisition costs and put more emphasis on profitability as expected.
 - EBIT adjusted for write-downs corresponded to SEK 9.2 M and net result for the period was SEK 3.2 M.
 - The result was largely affected by increased write-downs of SEK 4.5 M.
 - Going forward, we expect a strong fourth quarter since the holiday season is typically the strongest for gaming companies.
 - G5 Entertainment has a strong cash position, healthy balance sheet and good growth opportunities.
- Therefore, we upgrade our 'Buy' to a price of SEK 49.05 per share.

Company	G5 Entertainment
Ticker	G5EN.STO
Currency	SEK
Industry	Mobile games
# of shares	8,800,000
Share price	41.00
Target price	49.05
Risk	Medium
Recommendation	Buy

SHARE PRICE PERFORMANCE



NEXT EVENT

Feb 23, 2016: Year-end report

CONTACT ANALYSTS

Owen Spencer, owen.s@prestigoresearch.com

SEK (Thousand)	2012	2013	2014	2015	2016	2017
Sales	80,928	100,007	182,117	359,603	481,868	645,704
EBITDA	25,861	(11,826)	9,014	14,510	51,193	102,558
EPS	2.77	-1.34	0.77	1.19	4.20	8.42
ROIC	34%	-13%	7%	10%	25%	34%
ROA	25%	-10%	5%	6%	17%	25%
ROE	34%	-13%	7%	9%	24%	33%

TABLE OF CONTENTS

Q3 OVERVIEW	3
VALUATION	5
ESTIMATES.....	6
PEER VALUATION	8
Significant shareholders	9
Disclosure & Disclaimer.....	10

Q3 OVERVIEW

SEK (million)	Q3'15	Q3'14
Revenue	96.1	63.8
Gross profit	44.8	27.3
EBIT (before UA costs)	19.8	8.3
EBIT	4.7	-0.8

Revenue was SEK 96.1 M, which corresponded to a 51% increase compared to the SEK 63.8 M achieved in 2014. The company reports that F2P games grew by 79% on a comparison basis with Q3'14. Royalties payable to external developers increased by 29% compared to 2014, which is a lower rate than before. Gross profit for the quarter increased by 64% and was SEK 44.8 M (27.3) with a margin of 47% per cent (43%).

In the third quarter of the year, G5 decreased its user acquisition (UA) expenses, which boosted overall profitability. The total costs for user acquisition were SEK 15.1 M (9.2). This was in line with the strategy announced during the second quarter to maintain growth while also staying on the profit side. Operating costs increased during the quarter, which had a negative effect on EBIT before UA costs, but that was balanced off by the decrease in UA costs. EBIT after UA during Q3 was SEK 9.2 M, which corresponds to a margin of 10%.

G5 is increasingly relying on its own F2P games instead of licensing from external developers. In the long term, this will translate into less money going out to developers and more staying within the company. However, in the short term the company might experience increase in costs related to game development, game launches and user acquisition.

During the quarter, the company has been doing really well on all metrics. Average Monthly Active Users (MAU) has grown compared to the previous quarter and has also increased with 55% compared to the same period last year. Average Monthly Unique Payers (MUP) increased by 37% compared to Q3'14 and Monthly Average Gross Revenue Per Paying User (MAGRPPU) increased after the fall in the previous quarter.

Figure 1.0: G5 Entertainment metrics

	Q1'15	Q2'15	Q3'15
Average MAU (mn)	2.4	2.6	2.7
Average MUP (thousand)	98.1	102.7	105.2
Average MAGRPPU (USD)	32.9	29.9	30.3

Source: G5 Entertainment, 2015

Going forward, we expect the company to continue with the new strategy to achieve a balance between UA spending and profitability. This means that it becomes more important to acquire users organically and retain users for longer periods of time.

Our expectations are for a strong last quarter, since the holiday season is typically the most profitable time for game companies. We expect G5 to be launching holiday updates and new game releases towards the end of the year.

VALUATION

G5 Entertainment's share price has grown according to our expectations, but we believe there is still a strong upside potential for the stock. Historically, P/E ratio has been around 11x, which we believe is the fair value and it renders a valuation of around 48 SEK.

Looking into the market fundamentals, the mobile games market is expected to continue to grow at CAGR of 26%, but simultaneously we see a margin squeeze across the board. More and new competitors are entering and it becomes more challenging to acquire new users. Thus, the biggest risk for G5 remains the state of industry, which is constantly changing.

DCF Valuation

Scenario	Fair value	Probability
Base	49.80	50%
Worst	38.96	25%
Best	57.63	25%
Weighted Fair Value per share	49.38	

WACC Calculation

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

Estimates

PROFIT AND LOSS SEK (Thousand)	2015	2016	2017
Revenue	359,603	481,868	645,704
Production Cost	(188,706)	(250,572)	(335,766)
Gross Profit	170,898	231,297	309,938
General & Administrative Expenses	(85,588)	(98,427)	(113,191)
Other Operating Income	1,817	1,831	1,845
User acquisition costs	(72,616)	(83,508)	(96,035)
Operating Result Before Financial Results	14,510	51,193	102,558
Financial Income	45	158	317
Financial Expense	0	0	0
Operating Result After Financial Results	14,555	51,351	102,875
Taxes	(4,075)	(14,378)	(28,805)
Net Result	10,480	36,973	74,070

BALANCE SHEET

SEK (Thousand)	2015	2016	2017
FIXED ASSETS			
Intangible fixed assets			
Capitalized development costs	89,820	95,209	100,922
Goodwill	2,295	2,295	2,295
	92,115	97,504	103,217
Tangible Fixed Asstes			
Equipment	4,442	6,197	8,647
Deferred Tax	5,797	5,797	5,797
	10,239	11,994	14,444
Total fixed assets	102,354	109,499	117,660
Current assets			
Account receivable	9,730	10,562	14,152
Tax receivable	143	145	147
Other receivables	5,882	6,353	6,861
Developer Royalty Advance	0	0	0
Prepaid expenses and accrued income	23,379	32,731	45,823
Cash at bank	30,999	54,772	113,749
Total Current assets	70,133	104,561	180,732
TOTAL ASSETS	172,487	214,060	298,392
Equity			
Share capital	880	880	880
Other capital contribution	54,032	54,032	54,032
Other reserves	8,575	8,575	8,575
Retained Earnings	51,351	88,324	162,393
Total shareholders' equity	114,614	151,811	225,880
Non-current liabilities			
Deferred tax	0	0	0
Current liabilities			
Account payable	16,328	16,476	22,078
Other liabilities	3,705	4,150	4,648
Tax liabilities	10,652	11,717	12,889
Accrued expenses	27,188	29,907	32,897
Total current liabilities	57,873	62,250	72,512
TOTAL EQUITY AND LIABILITIES	172,487	214,060	298,392

Peer Analysis

Company	PE		
	2013	2014	2015
KING	0.00	7.81	8.77
GLU	0.00	61.40	44.50
Gameloft	91.00	32.78	20.30
Median	0.00	32.78	20.30

	EV/SALES		
	2013	2014	2015
KING	0.21	1.68	1.61
GLU	2.61	2.01	2.03
Gameloft	2.69	0.94	0.79
Median	2.61	1.68	1.61

	EV/EBITDA		
	2013	2014	2015
KING	0.56	4.14	4.26
GLU	(19.06)	17.70	16.80
Gameloft	16.99	17.00	6.29
Median	0.56	17.00	6.29

	P/BV		
	2013	2014	2015
KING	0.00	4.97	3.16
GLU	6.50	2.03	2.06
Gameloft	5.06	1.80	1.65
Median	5.06	2.03	2.06

	EV/EBIT		
	2013	2014	2015
KING	0.56	905.00	799.00
GLU	(12.13)	23.50	26.10
Gameloft	26.61	7.90	19.10
Median	0.56	23.50	26.10

Significant shareholders

Figure 3.0: Top 15 shareholders as of 30.09.2015

	Investor	Number of shares	Shares in %
1	Försäkringsaktiebolaget Avanza Pension	1 002 467	11,39%
2	Rite Internet Ventures Holding AB	677 447	7,70%
3	Wide Development Limited	616 000	7,00%
4	Proxima Limited	570 000	6,48%
5	Swedbank Robur Ny Teknik	550 000	6,25%
6	Purple Wolf Limited	530 000	6,02%
7	Nordnet Pensionsförsäkring AB	528 280	6,00%
8	Tommy Svensk	403 000	4,58%
9	Peter Lindell	143 673	1,63%
10	Ribbskottet AB	130 000	1,48%
11	SEB Life Ireland	116 205	1,32%
12	Swedbank Försäkring	112 960	1,28%
13	SEB Life International	100 000	1,14%
14	Altraplan Bermuda Ltd	99 833	1,13%
15	Daniel Eriksson	90 500	1,03%

Prestigo Research is a highly specialised investment research firm that covers small-cap companies based on the strength of their business model and investment case. The company is not a financial institution, does not have a trading department and has no corporate finance relations. We are a pure-play research firm dedicated to providing the highest quality of objective research. The company is registered and based in the United Kingdom.

DISCLAIMER

The particulars contained herein were obtained from sources which we believe to be reliable but are not guaranteed by us and may be incomplete. The particulars are not a complete analysis of every material fact respecting any company, industry, or security. The opinions expressed are based upon our analysis and interpretation of these particulars and are not to be construed as a solicitation or offer to buy or sell the securities mentioned herein. The opinions expressed here therefore reflect the judgment of the research analyst(s) at this date and are subject to change. Prestigo Research makes no guarantee, representation or warranty as to the accuracy or completeness of the particulars. No part of the research analyst's compensation was, is, or will be, directly or indirectly, related to the specific recommendations or views expressed by the research analyst(s) in this equity research report. The analyst does not own any shares directly or indirectly (or any derivative thereof) of the company that is subject to this research report. The analyst or member of the analyst's household does not serve as officer, director or advisory board member of the company that is subject to this research report. This research product is designed for professional investor clients only. This report has been issued by Prestigo Research. Prestigo is not regulated by the Financial Services Authority and does not give investment advice. However, Prestigo conducts its business to at least match the highest regulatory standards available. Prestigo believes that it is the portfolio/fund/money manager that is best placed to make investment decisions. Prestigo research is designed strictly for professional investors only as defined by MiFID and the Financial Services Authority. This research product is solely for the information of the addressee only and is not an offer, or solicitation of an offer, to sell, or buy, any securities or any derivative instruments or any other rights pertaining thereto. The company in coverage in this report is a subscriber of Prestigo Quarter Update reports and therefore receives our updates simultaneously as other paid subscribers. The company also pays a premium for Prestigo Distribution Licence. This simply allows the company to freely distribute all Prestigo Quarter Update material on its own website, seven days after the original publication date of the given report(s) and compensates for the costs, which Prestigo incurs in distributing the report(s) to various media and interested third parties that are not paying clients of Prestigo. This research product is designed for Institutional Investors only. This report is not intended for use or distribution to US corporations that do not meet the definition of a major US institutional investor in the United States or for use by any citizen or resident of the United States.

These materials may not be reproduced, distributed or published by any recipient for any purpose. Please cite source when quoting.