

STILLFRONT GROUP



STILLFRONT GROUP: STRONG MOMENTUM AND WELL-POSITIONED FOR DRIVING TRENDS IN THE VIDEO GAME INDUSTRY

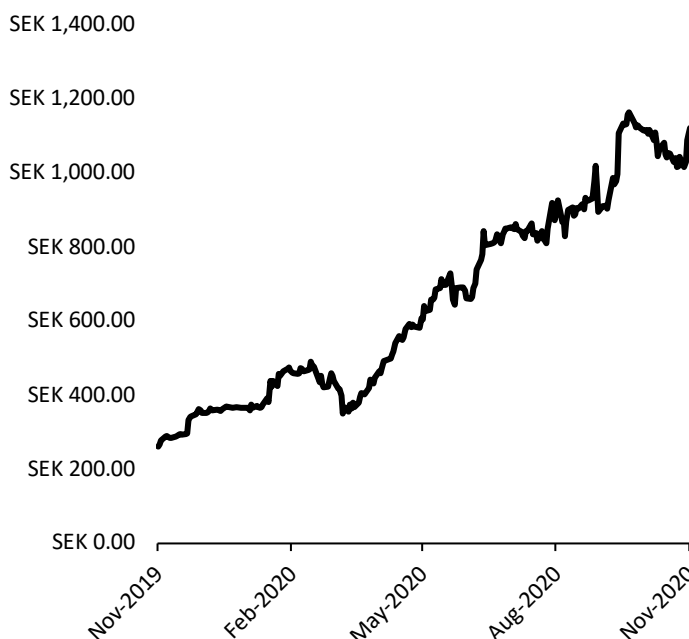
STILLFRONT GROUP

Company Overview:

Company Name:	Stillfront Group
Exchange:	OMX Stockholm
Ticker:	SF.ST
Country:	Sweden
Sub industry:	Gaming

Company Data:

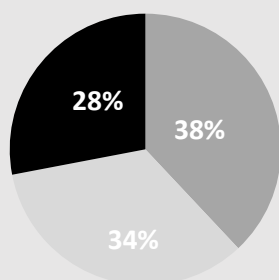
Price Rating:	Strong Buy
Price Target:	SEK 1,408
Current Price:	SEK 1,104
Price Date:	06/11/20
52 Week High (22-Sep-2020):	SEK 1,216
Market Cap:	SEK 38.31 (bn)
Enterprise Value:	SEK 38.96 (bn)



Company Overview

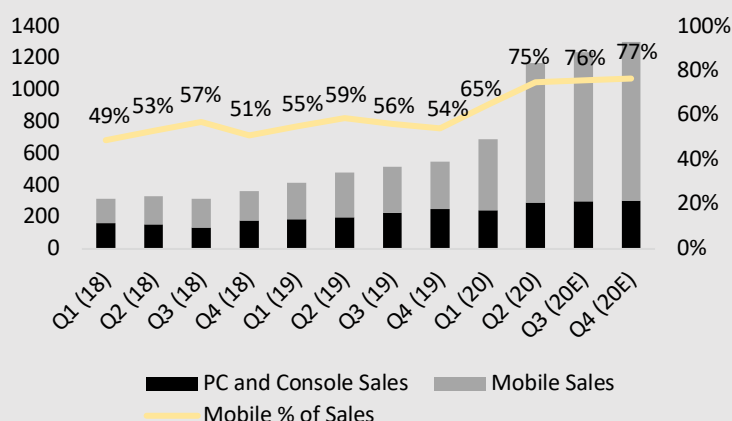
- Swedish video game company developing, publishing and distributing digital games for mobile, PC and console.
- Games are distributed globally with main markets in the US, Germany and the Middle East.
- Acquisition-focused strategy built by gaming professionals and refined over 10 years of operations.
- Decentralised business model to secure speed and market proximity, enabling studios to focus entirely on creating games.
- Group resources and execution of collaboration available between studios where cost synergies may be realised.
- Well positioned for continued growth due to attractive market position in an industry supported by megatrends, a diversified portfolio of games and a strong M&A pipeline.
- By releasing new edition to old games, costs of newly produced editions remain relatively low, reducing financial risks.

Figure 1: Sales Split



Casual & Mash-up
 Simulation, Action & RPG
 Strategy

Figure 2: Sales: Mobile vs. desktop



PC and Console Sales
 Mobile Sales
 Mobile % of Sales



Reasons to Invest in STILLFRONT GROUP

Stillfront's unique acquisition-focused business model combined with its decentralised studios have proven highly effective. It stands out among its peers in the gaming industry mainly because of its diverse game portfolio that consists of casual & mash-up, strategy and simulation, action & RPG. As Covid-19 has accelerated the gaming industry, there have been structural tailwinds for Stillfront over the last couple of months, but we still believe that its impressive growth journey will continue.

1. Increasing Daily Active Users (DAU), Monthly Paying Users (MPU) and Growing Margins

- Mainly driven by Stillfront's strong acquisition activity and the favourable climate of gaming due to Covid-19, Stillfront's DAU increased significantly in Q2 (270% Y-o-Y).
- MPU grew 352% Y-o-Y in Q2, which combined with EBITDA margins amounting to 40% (37%) helped drive EBITDA growth by 170%, mainly caused by three significant acquisitions; Kixeye, Storm8 and Candywriter.
- Growing margins are mainly driven by their proven effective acquisition strategy combined with their decentralised business model, where cost synergies may be realised through group resources if possible.

Figure 3: Daily Active Users (DAU)

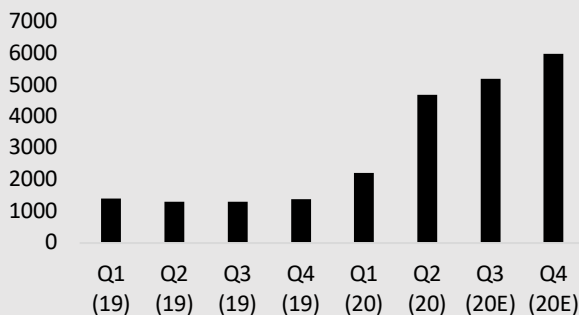
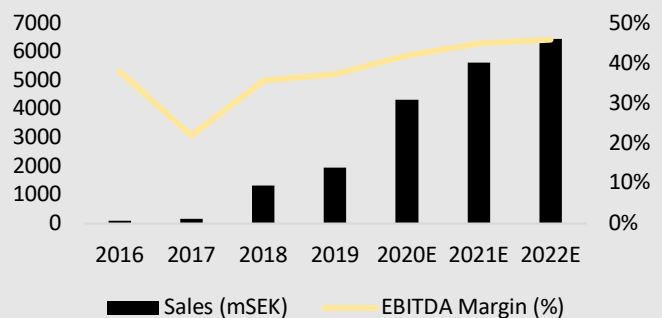


Figure 4: Sales and EBITDA Margin



2. Proven Acquisition Strategy and Strong M&A Pipeline in a Strong Growing Industry

- Covid-19 has accelerated the digitalization of video game sales in which Stillfront is dominant (digital share of video game sales almost tripled between 2011 and 2018 for the largest gaming companies (EA, Activision Blizzard, Take-Two, Ubisoft)).
- With a proven acquisition strategy and recent acquisition of Nanobit this fall (approx. \$140m), with 500k DAU and 5m Monthly Active Users (MAU), they are well positioned for the upcoming future.
- Stillfront in the forefront of the following trends driving the gaming industry; Data driven Free-to-play model taking market share, focus on creating strong social communities in and around games, mobile gaming market grows much faster than PC and console and increased decentralisation (further accelerated by Covid-19).
- Mobile gaming audience is expanding rapidly with a current player base of 2.5bn players (200m in 2010, 1.5bn in 2015).

Figure 5: Digital Share of Sales (EA, Activision Blizzard, Take-Two, Ubisoft)

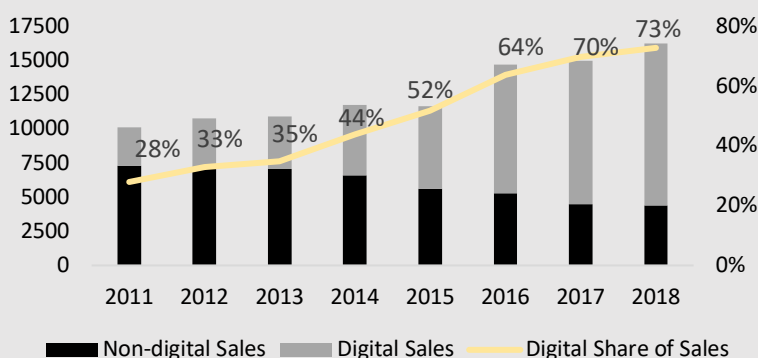
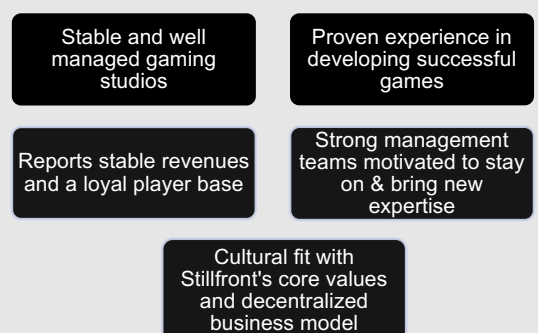


Figure 6: Acquisition Strategy





Stillfront Group Valuation Methodology

We made usage of a discounted cash flow (DCF) analysis, combined with an estimated exit multiple from a trading comps analysis to reach our valuation and price target of SEK 1,415 SEK per share, implying an upside of 28% from the closing price at 06/11/2020 (see underlying assumptions in model below).

- We see Stillfront as a strong pick for the upcoming 12M, especially as we still do not seem to be able to implement a Covid-19 vaccine in the short future, which justifies strong growth rates in 2020E and 2021E.
- With a strong M&A Pipeline and recently acquired studios, we expect margins to increase significantly over time, which will help generate strong Free Cash Flows in the future.

Figure 7: Stillfront Group Discounted Cash Flow Model

	DCF Analysis Stillfront Group													
	Historical Period				Projection Period				Perpetuity Projection Period					
	2016	2017	2018	2019	2020E	2021E	2022E	2023E	2024E	2025E	2026E	2027E	2028E	2029E
Sales	94.8	913.0	1325.0	1967.0	4327.4	5625.6	6469.5	7116.4	7650.1	8032.6	8434.3	8687.3	8947.9	9216.4
% Growth		863%	45%	48%	120.0%	30.0%	15.0%	10.0%	7.5%	5%	5%	3%	3%	3%
EBITDA	36.0	201.0	474.0	736.0	1817.5	2531.5	2976.0	3344.7	3633.8	3855.7	4090.6	4256.8	4429.2	4608.2
% Growth		458.33%	135.82%	55.27%	146.94%	39.29%	17.56%	12.39%	8.64%	6.11%	6.09%	4.06%	4.05%	4.04%
% Margin	37.97%	22.02%	35.77%	37.42%	42.00%	45.00%	46.00%	47.00%	47.50%	48.00%	48.50%	49.00%	49.50%	50.00%
Less: Depreciation and Amortisation	9.6	26.3	125.0	224.0	432.7	562.6	646.9	711.6	765.0	803.3	843.4	868.7	894.8	921.6
EBIT	26.4	174.7	349.0	512.0	1384.8	1969.0	2329.0	2633.1	2868.8	3052.4	3247.2	3388.1	3534.4	3686.5
% Growth		562%	100%	46.7%	170.5%	42.2%	18.3%	13.1%	9.0%	6.4%	6.4%	4.3%	4.3%	4.3%
Less: Taxes	6.6	43.7	87.3	128.0	346.2	492.2	582.3	658.3	717.2	763.1	811.8	847.0	883.6	921.6
NOPAT	19.8	131.0	261.8	384.0	1038.6	1476.7	1746.8	1974.8	2151.6	2289.3	2435.4	2541.0	2650.8	2764.9
% Growth		562%	100%	47%	170%	42%	18%	13%	9%	6%	6%	4%	4%	4%
Plus: Depreciation and Amortisation	9.6	26.3	125.0	224.0	432.7	562.6	646.9	711.6	765.0	803.3	843.4	868.7	894.8	921.6
% Sales	10.13%	2.88%	9.43%	11.39%	10%	10%	10%	10%	10%	10%	10%	10%	10%	10%
Less: Acquisitions of PP&E	0.7	0.8	4.0	7.0	21.64	28.13	32.35	35.58	38.25	40.16	42.17	43.44	44.74	46.08
% Sales	0.7%	0.1%	0.3%	0.4%	0.5%	0.5%	0.5%	0.5%	0.5%	0.5%	0.5%	0.5%	0.5%	0.5%
Less: Acquisitions of Intangibles	31.0	54.0	160.0	248.0	432.7	562.6	646.9	711.6	765.0	803.3	843.4	868.7	894.8	921.6
% Sales	32.70%	5.91%	12.08%	12.61%	10%	10%	10%	10%	10%	10%	10%	10%	10%	10%
Less: Net Change in Working Capital	(0.1)	(11.5)	(113.9)	28.0	(118.4)	47.6	168.8	142.3	163.7	95.6	20.1	12.7	13.0	13.4
Working Capital (% Sales)	-0.6%	-7.3%	-9.5%	-5.0%	-5%	-3%	0%	2%	4%	5%	5%	5%	5%	5%
Unlevered Free Cash Flow	-2.2	114.0	336.7	325.0	1,135.3	1,401.0	1,545.6	1,796.9	1,949.7	2,153.5	2,373.1	2,484.9	2,593.1	2,705.4
% Growth		102%	66%	-4%	71%	19%	9%	14%	8%	9%	9%	4%	4%	4%
Discount Period					0.833	1.833	2.833	3.833	4.833	5.833	6.833	7.833	8.833	9.833
Discount Rate					0.95	0.90	0.85	0.80	0.75	0.71	0.67	0.63	0.60	0.56
Present Value of Free Cash Flow					1,081.4	1,258.7	1,309.9	1,436.4	1,470.2	1,531.7	1,592.2	1,572.6	1,547.9	1,523.4

Implied Exit Multiple using PGM	Enterprise Value	Implied Equity Value	WACC Schedule
Terminal Year FCF (2029E)	Cumulative Present Value of FCF	Enterprise Value	Market Value of Equity
2,705	14,324	48,997	5799
Perpetuity Growth Rate		Less: Total Debt	Market Value of Debt
2.00%		1,602	1602
Terminal Value	Avg. Terminal Value (EMM & PGM)	Less: Preferred Securities	Debt-to-Total Cap.
68,737	63,400	20	21.6%
Terminal Year EBITDA (2029E)	Discount Factor Terminal Year	Plus: Cash and Cash Equivalents	Equity-to-Total Cap.
4608.2	0.55	936	78.4%
Implied Exit Multiple	Present Value of Terminal Value	Implied Equity Value	Cost of Debt
15.4x	34,672	48,311	2.68%
	% of Implied Enterprise Value		Tax Rate
	71%		25%
Implied Perpetuity Growth Rate using EMM	Implied Enterprise Value	Implied Upside/(Downside)	After-tax Cost of Debt
4.60%	48,997	34.1	2.0%
Terminal Year EBITDA (2029E)		Diluted Shares Outstanding	Risk-free Rate
4,608		1,415	3.0%
Exit Multiple (from comps)	Enterprise Value	Implied Share Price	Equity Risk Premium
12.6x	48,997	1,415	4.0%
Terminal Value	LTM 6/30/2020 EBITDA	Current Share Price (Close on Nov 05)	Levered Beta
58,063	1091	1,104	1.03
Terminal Year FCF (2029E)		Upside/(Downside)	Cost of Equity
2,705		28.2%	7.1%
Implied Perpetuity Growth Rate	Implied EV/EBITDA		WACC
1.16%	44.9x		6.0%

Future Catalysts:

- **Q3 Report:** since the strong figures in Q2 mainly came from a forced shutdown in the spring, Q3 results will provide a more illuminating picture of recent performance as restrictions and shutdowns have been loosened globally.
- **Further acquisitions:** since Stillfront implements an acquisition-focused growth strategy, upcoming acquisitions are key.
- **Nanobit:** although Nanobit constitutes a relatively small share of Stillfront Group, it's performance in 2021 once fully integrated will impact the group's portfolio of mobile games.

Investment Risks:

- **Consumer's Response to decreasing Economic Output:** after a vaccine is in place, effects on consumer sentiment and spending likely to experience a "time lag"
- **Dependence on third parties:** Stillfront's mobile games (majority of sales) are dependent on Appstore and Google Play.
- **Adverse or Negative Publicity:** negative perception surrounding Stillfront's games will hurt them to a larger extent due to its strong and loyal fan base.

Disclosure:

The information contained within this research report is for general educational purposes only. It is not a substitute for financial advice from a licensed professional. Please conduct your own research when making investment decisions.