



G5 Entertainment AB (GENTF)

Initiate Coverage Of G5 Entertainment With A \$54 Price Target

	2019	2020E	2021E	2022E
Mar.	\$0.45	\$0.42A	\$0.50	\$0.62
June	0.21	0.51A	0.53	0.66
Sep.	(0.04)	0.42	0.46	0.66
Dec.	0.05	0.14	0.27	0.41
EPS	\$0.67	\$1.50	\$1.75	\$2.35
P/E		25.2x	21.6x	16.1x

Note: NR = Not Rated. Risk Ratings: H = Highly risky; M = Moderately risky. We translate G5's financials from Swedish Krona to USD at a 8.75 Krona per Dollar. Shares are listed on OTC QX and NASDAQ Nordic. Price per share information is sourced from OTC QX. We cite the trading volume on the Nordic listing due to the significant difference in liquidity. NC=Not covered by Sidoti & Company LLC.

Year	2013	2014	2015	2016	2017	2018	2019	2020E	2021E	2022E
Rev.(Mil.)	\$11.4	\$20.8	\$43.9	\$59.1	\$129.8	\$165.7	\$140.9	\$162.5	\$186.5	\$212.2
GAAP EPS	(\$0.15)	\$0.09	\$0.20	\$0.43	\$1.11	\$1.63	\$0.67	\$1.50	\$1.75	\$2.35

Description: G5 Entertainment (www.g5e.com) is a mobile game publisher and developer with revenue generated primarily from in-app purchases. It distributes globally through the major mobile app stores and generates most of its revenue from the U.S., Europe and Japan. Headquarters are in Stockholm, Sweden. Shares trade on NASDAQ Nordic and are listed on OTC QX.

G5 Entertainment (GENTF) develops and publishes mobile games that are distributed globally through major mobile app stores such as Google Play and the Apple App Store. The company is a 20-year veteran of mobile game development, with advanced tooling built to allow an analytical approach to customer acquisition and a strategy for building across all available platforms.

GENTF is benefitting from sheltering in due to COVID-19, which is drawing a wave of new users to mobile gaming in 2020, and from lower spending on sales and marketing, in proportion to revenue, which is widening margins. Revenue returned to growth in 1Q:20, up 1.9% year over year, compared to a 3.7% decline in 4Q:19. Although revenue declined 15% in 2019, gross margin improved to 56.9% from 51.5% year over year, reflecting a favorable revenue mix shift. We expect about \$1.80 in net cash exiting 2020. Management attempted to return its most successful game, Hidden City (launched in 2014), to growth through aggressive marketing in 2019. The campaign was evidently not profitable, and the company tempered its aggressive marketing and changed its head of sales at the end of 2019. Resultingly, we estimate sales and marketing at 27.4% of sales in 2020 versus 31.6% in 2019. Coupled with our expectation that gross margin will likely hover around 57%, tied to the rising mix of wholly owned games (compared to the high-40% range when licensed games dominated the revenue mix), we anticipate net income will approach the 2018 record high of \$14.7 million in 2020. If a game hits a hot streak and G5 sees an opportunity to profitably expend marketing resources, near-term results may exceed our expectations. We also note the revenue trajectory of Hidden City can significantly affect full year results.

A focus on internal game development and an ongoing revenue mix shift to wholly owned games will increase profitability. G5 began to invest more heavily in internal game development in 2016, which led to R&D spending (including capitalized spending) growth of 94% in 2017-2019 and revenue growth of just 9% in the same period. Combined with sales and marketing rising to 31.6% of revenue in 2019 from 29.3% in 2017, margins were under pressure. However, with a renewed focus on customer acquisition efficiency, better gross margins from wholly owned games, and the closing of the lagged effect from launch to revenue and profit from new games, we think the company's profitability and cash flow will show marked improvement in 2020-2022.

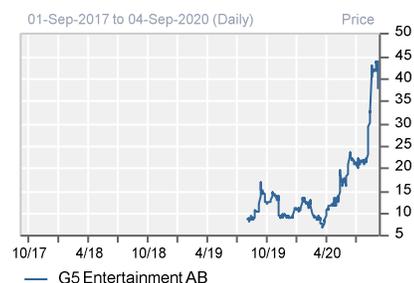
Mobile gaming touches an enormous audience with large scale monetization. Approximately 2.7 billion people (35% of the world's population) are expected to play a

NR
Price Target: \$54
Price: \$37.73
Risk Rating: M

Matthew Galinko
(212) 894-3338
(mgalinko@sidoti.com)

Key Statistics

Analysts Covering	2
Market Cap (Mil)	\$340
Enterprise Value	\$322
52-Week Range (US OTC)	46-7
5-Year EPS CAGR	15%
Avg. Daily Trading Volume*	268,000
Shares Out (Mil)	8.805
Float Shares (Mil)	6.409
Insider Ownership	27%
Institutional Holdings	15%
Annualized Dividend	\$0.26
Dividend Yield	0.0%
FCF Per Share (2022E)	\$2.59
FCF Yield (2022E)	6.9%
Net Cash Per Share (2022E)	\$6.17
Price to Book Value	7.8x
Return on Equity (2022E)	17.0%
Total Debt to Capital	Nil
Interest Coverage Ratio	NM
Short Interest %	N/A
Short Interest Days To Cover	N/A
Russell 2000	1,535
Russell 2000 - Last 12 Months	3.4%
GENTF - Last 12 Months	224.8%



— G5 Entertainment AB

Source: FactSet Prices

mobile game in 2020, according to data from NewZoo. We think that number will rise in the coming years, as countries undergoing significant development begin to adopt smartphones and as a greater proportion of all age groups become digitally literate. Mobile games are predominantly free to play, with revenue primarily from in-game purchases. Android and Apple dominate the global smartphone market and offer a respectively common app store that is consistent regardless of location; as such, there is a low bar to reach new smartphone owners with free to play games. Growth in mobile gaming revenue is outpacing console and PC gaming. Furthermore, revenue from mobile gaming surpassed PC gaming and console gaming revenue combined beginning in 2018, according to Newzoo estimates.

GENTF has a strong balance sheet and a history of self-funding. G5 held \$15.0 million (\$1.69 per share) in cash and investments at the end of 2Q:20. The company took a short-term loan to cover tax payments prior to receiving a like-sized refund that is expected in 3Q:20. The company generated \$4.7 million (\$0.52 per share) in free cash flow (FCF) in 2019. We note we use a conservative measure of cash flow that deducts capitalized R&D and capital expenditures from cash flow from operations. FCF was about \$10.7 million (\$1.19 per share) in 2018. With gross margin on the upswing and sales and marketing expenses stable to slightly declining, we think FCF is likely to rise as revenue expands.

We initiate coverage of G5 Entertainment with a \$54 price target and Moderately Risky rating. G5 has been cash flow positive since 2014. The stock trades at about 22x our 2021 EPS estimate of \$1.75, compared to peers that trade at 20x-40x. On a multiple of revenue, peers trade at a median of around 2.7x (versus GENTF's 1.8x) and a forward P/E of 19.3x (versus GENTF's 21.6x). Adjusting the peer group to include only companies with revenue growth, yields a 21.3x median peer P/E. We argue a premium to the group is justified given G5's history of positive earnings, cash flow, and pipeline of new games. We apply a 23x multiple to our 2022 EPS estimate of \$2.35 to arrive at a \$54 price target.

Company Overview

G5 Entertainment is a mobile gaming development and publishing company based in Stockholm, Sweden. The company was founded in 2001 by the current CEO Vlad Suglovov and COO Alexander Tabunov. G5 launched its first downloadable mobile game in 2003. Headcount is around 600, with development centers split between Ukraine and Russia.

G5 initially developed games for other brands, including Walt Disney Company (NYSE: DIS, NC) and Electronic Arts (NASDAQ: EA, NC). In 2009, with the launch of Apple's App Store, G5 began to publish games, as the evolution of mobile game distribution made brand recognition less relevant. The company has also licensed games from independent developers to publish. The pendulum today is swinging back toward wholly owned games, with the revenue mix reaching 38% in 2019 from 31% in 2018 and 20% in 2017. Beginning in 2017, G5 invested aggressively to build in-house support for internal game development.

The company primarily develops toward a demographic of women aged 35+ that are casual gamers. The theory is that most competitors focus on stereotypically young male gamers, leaving G5's target audience under-addressed, even though this demographic typically has higher income, reasonable proclivity for in-game spending, and perhaps better game loyalty. We think the smartphone adoption cycle over the last decade, now largely complete, drew a younger demographic early on, possibly explaining why the mobile gaming market traditionally focused on a younger audience. G5's games are optimized for larger screens such as tablets.

Games are primarily free to play and include enticement for players to spend on in-game purchases to improve their position or experience in the game.

G5 went public in 2006, selling 1 million shares on Nordic Growth Market (NGM) MTF. Secondary offerings followed in 2008 to help fund M&A of a game development company and build additional internal game development capacity. Shares were later listed on Aktietorget Exchange (now Spotlight Stock market). G5 listed on NASDAQ Nordic in 2014 and listed on OTC QX in 2019.

Distribution

G5 distributes games through the ubiquitous mobile app stores, such as the Google Play Store and Apple App Store. Most of the 3.5 billion smartphones worldwide ship with one of those two portals to applications, including games. Some regions maintain greater control over app stores, and G5 may need to find different distribution arrangements in some countries; almost all revenue is generated from the U.S., Europe, and Japan.

Centralized app stores from Google and Apple won out on mobile (versus decentralized application distribution on PCs) by winning the preferences of key stakeholders, including the user, the app store owner, and the app publisher. Using the Apple/Google app stores allows for the ability to screen for and control questionable or malicious content sold through the store; if apps were distributed by third party stores or websites, Apple/Google would lose control and could allow security vulnerabilities to propagate more quickly. Apple/Google participate in the economics of the app store. For the smartphone owner, the app store is bundled with the phone, easy to search, and is a trusted source; this is particularly important in situations where payments are issued. Combined with the scale of app options from the lightly curated app stores, there is virtually no reason to look beyond what is bundled with the phone. For the developer, these app stores provide a massive platform,

global reach, potential for free marketing in the form of top-10 lists, and a global secure payment infrastructure.

Developers pay approximately 30% of revenue generated from app store listed games to the app store owner, including advertisements and in-game purchases.

Major Games

The table below lists G5's top games by revenue as of March 2020. The company reports the revenue mix of wholly owned and licensed games quarterly. Given the dominance of wholly owned in the top-10 list, we think it is reasonable to assume that Hidden City accounts for the overwhelming majority of licensed revenue. In 2019, licensed games accounted for 62% of total revenue.

Exhibit 1: G5 Top Games - March 2020

Title	Ownership	Launched
Hidden City: Mystery of Shadows	Licensed	2014
Jewels of Rome	Wholly Owned	2019
Mahjong Journey	Wholly Owned	2014
The Secret Society - Hidden Objects Mystery	Wholly Owned	2012
Homicide Squad - Hidden crimes	Wholly Owned	2017
Pirates and Pearls	Wholly Owned	2017
Survivors: The Quest	Wholly Owned	2014
Hidden Treasures	Wholly Owned	2019
Jewels of Mahjong: Match times and restore the city	Wholly Owned	2019
Supermarket Mania Journey	Wholly Owned	2015

Source: G5 2019 Annual Report

We are encouraged that three of the top-10 games in G5's portfolio were launched in 2019; two in December. It can take several months for new games to hit a stride and become material revenue and earnings contributors if they ever reach that point. In our view, Exhibit 1 successfully illustrates G5's process effectiveness in identifying and launching new games. A total of five new games were released in 2019; G5's goal is to launch a total of six new games in 2020.

Jewels of Rome, launched in 2Q:19, quickly became the second largest revenue contributor in the portfolio. This is a Match-3 style game, which is estimated to be a \$7 billion annual genre of mobile games. G5 launched new Match-3 category games in 2020 that are anecdotally off to strong starts, perhaps mirroring Jewels of Rome.

Transition to Wholly Owned Games

In 2016, G5 began investing to build a larger development platform. Headcount grew from about 280 in early 2016 to 600 in 2020. With multiple years of positive free cash flow and a debt-free balance sheet, we think the company became comfortable underwriting the risk of developing its own games.

Licensing games from independent developers puts less financial responsibility on G5's books. Under a typical licensed game contract, G5 would be responsible for publishing and marketing, and typically retains half of the after-cost revenue. Thus, licensing games reduces financial risk but limits upside.

If we assume Hidden City: Mystery of Shadows accounts for around \$80 million of annual revenue and \$30 million

of customer acquisition costs, G5 would be left with around \$13 million before corporate expenses after the app store takes 30% and G5 pays the split to the developer. Considering 2018 EBIT of \$15.7 million and 2019 of \$5.6 million, if G5 was the developer/owner of Hidden City, we think income from operations would be considerably higher.

Wholly owned games reached 54% of total revenue in 2Q:20, up from 45% sequentially, 36% year over year, and 31% two years prior. While not all games in the pipeline are ultimately launched, and not all launched games meet expectations or even drive a return, we think the combination of a strong record of successful game launches in 2019 and an aggressive launch schedule in 2020, suggests additional high performing games will emerge in the portfolio. While runaway success of a game is difficult to predict, we think G5 is now positioned to capture the full benefit.

Competition

Exhibit 2: Peer Operating Metrics

Name	Symbol	(million)	ABPDAU*
Zynga	ZNGA	22.0	\$0.25
Activision	ATVI	9.0	\$0.68
Glu Mobile	GLUU	3.1	\$0.53
Rovio	ROVVF	5.1	\$0.17
<i>G5 Entertainment</i>	<i>GENTF</i>	<i>1.8</i>	<i>\$0.25</i>

* Avg billings (or revenue) per DAU

* DAU is the total number of daily players in millions

Source: Company reports

Exhibit 2 above illustrates how certain of G5's metrics compare to public peers as of the most recently reported quarter.

Rovio (OTC: ROVVF, NC), headquartered in Espoo, Finland, was founded in 2003 and created the Angry Birds franchise in 2009. The game had been downloaded 1 billion times in 2012 and 2 billion times by 2014. Rovio worked to expand the Angry Birds franchise beyond mobile gaming, including to animation and merchandise. Today, the company's mobile user base is strong, but revenue generation from paying users lags peers.

Glu Mobile (NASDAQ: GLUU, NC) was founded in 2001 and in 2010, it began transitioning to free to play. The company now competes in several categories, including licensing brands from celebrities such as Kim Kardashian and building games with highly proprietary content. Glu is near the high end of productivity of its users.

Zynga (NASDAQ: ZNGA, NC), founded in 2007, launched hit games FarmVille on Facebook in 2009 and Words with Friends on mobile platforms in December 2010. Zynga reported the highest mobile user engagement of the group at 22 million, and its productivity per user is consistent with G5.

King Games, acquired by Activision Blizzard (NASDAQ: ATVI, NC) in 2016 in a \$4.7 billion transaction valued around 2.3x sales, developed the popular Candy Crush Saga free to play mobile game. Candy Crush Saga generated around \$1 billion in annual revenue, and the expansive Candy Crush franchise of games was estimated to generate around \$1.5 billion in 2019. King Games defined the Match-3 genre of mobile games with Candy Crush. The company sets the high watermark in productivity per user.

Recent Results

G5 Entertainment reports financials under International Financial Reporting Standards (IFRS), and the company does not provide a reconciliation to GAAP. PricewaterhouseCoopers is the auditor. GENTF reports financials denominated in the Swedish krona. We translate results back to the U.S. dollar at a fixed exchange rate of approximately 8.75 krona to 1 U.S. dollar. We intend to update the translation as needed when there is a material change in the exchange rate compared to the prior published note and models. We will apply all future changes to the translation to historical and projected quarters.

G5 reported 2Q:20 revenue of \$43.0 million, growth of 26.6% over 2Q:19. Revenue had declined annually for five consecutive quarters before turning positive in 1Q:20. Wholly owned games reached 54% of the revenue mix in 2Q:20, up from 45% sequentially and about 36% year over year. Revenue from licensed games improved to \$19.8 million from \$19.6 million sequentially but were down from \$21.9 million year over year. However, royalty payments to external developers increased to \$5.6 million from \$4.9 million sequentially, as we suspect that spending on marketing shifted to wholly owned games from licensing, reducing the deduction taken out of royalty payments. Gross margin improved to 57.5% in 2Q:20 from 56.6% in 1Q:20 and 54.5% in 2Q:19.

Expensed R&D in 2Q:20 was \$5.8 million and total R&D including capitalized was \$11.9 million, up from \$5.6 million and \$9.2 million sequentially and \$5.0 million and \$7.9 million year over year. Sales and marketing expense declined to \$10.7 million from \$9.1 million sequentially but was up from \$9.4 million year over year.

Income from operations was \$5.1 million, up from \$4.4 million sequentially and \$2.1 million year over year on higher revenue somewhat offset by higher operating expenses. Net income of \$4.5 million (\$0.51 per share) reported in 2Q:20 was up from \$1.9 million (\$0.21 per share) in 2Q:19 and \$3.8 million (\$0.42 per share) in 1Q:20.

Earnings Outlook

Daily Active Users (DAU) grew sequentially to 1.8 million in 2Q:20, the second consecutive quarterly increase after four consecutive quarters of flat to down results. Monthly average revenue per user increased 23.4% year over year and 13.2% sequentially. The COVID-19 pandemic and shutdown led more people to mobile gaming than

normal, reflected in the 31.7% year over year growth in overall downloads from app stores, according to market research from Sensor Tower Store Intelligence.

We model revenue growth of 15.3% to \$162.5 million in 2020, improvement from a 15% annual revenue decline in 2019. The improved results are driven by successful launches, particularly Jewels of Rome in 2019 that as of 2Q:20 reached 19% of total revenue. We model a gross margin of 56.7%, down slightly from 56.9% in 2019, but up significantly from 51.5% in 2018. The gross margin in 2019 benefitted from an aggressive marketing campaign including for licensed games; because commission paid to developers for licensed games comes after customer acquisition expenses, developer commissions were offset. There was also a significant contract revision with an independent developer that resulted in a material decline in royalties for one quarter; G5 management is limited in its ability to disclose more detail. We expect wholly owned games to reach 51% of total revenue in 2020, up from 38% in 2019; through 1H:20, wholly owned games accounted for 50% of revenue.

We anticipate expensed R&D increases to \$23.6 million in 2020 (from \$21.2 million in 2019) and total R&D including capitalized to \$44.7 million (from \$34.2 million) over the same period. As a percentage of revenue, we estimate total R&D will increase to 27.5% from 24.3%, consistent with the company's efforts to invest in internal game development, which will ultimately benefit gross profit. We model a reduction in sales and marketing to 27.4% (from 28.7%) in 2020 versus 2019 as G5 backs off the aggressive marketing campaign of 2019 and targets better efficiency; the company replaced its sales lead at the end of 2019. In aggregate, we see operating expenses up about 3% year over year, growing at a slower pace than total revenue. As a result, we model the 2020 EBIT margin will expand to 9.4% (from 4.8%) and net margin will increase to 8.2% (from 4.3%). We estimate 2020 EPS of \$1.50.

In 2021, we anticipate revenue growth will decelerate slightly to 14.8% (from 15.3%). We caution that the outlook has three counterbalancing effects: First, it is difficult to distinguish the P&L impact from the pandemic to successful game launches like Jewels of Rome. Second, management spoke positively about new Match-3 games on the 2Q:20 earnings release conference call and emphasized the significantly larger market opportunity in Match-3 compared to current categories where it has traditionally competed. Management estimates that one or more Match-3 launches in 2020 could reach the success of Jewels of Rome by 2021, which by our estimate could push revenue growth to 20%+, and that outlook assumes Jewels of Rome levels off. For 2021, we forecast gross margin will improve to 58.2% on a favorable mix shift to wholly owned games and operating expenses will grow to 17.4% assuming customer acquisition gets more as the pandemic ends. We model earnings of \$15.6 million (\$1.75 per share).

For 2022, we anticipate revenue of \$212.2 million, growth of 13.8%. If a new Match-3 game released in 2020 or 2021 reaches a similar level of success to Jewels of

Rome, we think G5 revenue could reach \$220 million if the rest of the portfolio remains relatively steady. We expect gross margin of 59.5% (up from 58.2%), an EBIT margin of 11.5% (up from 9.6%), and earnings of \$20.9 million (\$2.35 per share) for a net margin of 9.9% (up from 8.3%) on operating leverage.

Balance Sheet and Cash Flow

GENTF reported cash and equivalents of \$15.0 million (\$1.69 per share) as of the end of 2Q:20, down from \$21.2 million (\$2.35 per share) sequentially but improvement from \$14.3 million (\$1.58 per share) year over year. There was about \$2.1 million (\$0.24 per share) of a free cash outflow in 2Q:20. Trailing twelve month return on assets (ROA) and equity (ROE) as of the end of 2Q:20 were 12.4% and 18.9%, respectively. Note that we calculate free cash flow by subtracting capex and capitalized development expenses from cash from operations. Capitalized software development generally tracks around 8% to 10% of total revenue and capex around 0.5%. GENTF generally converts between 4% and 7% of revenue to free cash flow. GENTF took on short-term debt in 2Q:20 to fund a \$6 million tax bill and \$8.2 million of dividend payments and share repurchases; we think the tax will be offset by a refund in 3Q:20 or by the end of the year, and the debt will be retired.

We model FCF of \$14.1 million (\$1.58 per share) in 2020, \$18.1 million (\$2.03 per share) in 2021, and \$23.1 million (\$2.59 per share) in 2022, supported by expanding operating leverage as revenue will likely grow faster than operating expenses and the mix shift from licensed to wholly owned games should improve gross margin. We anticipate G5 will end 2020 with \$21.9 million (\$2.47 per share), 2021 with \$35.9 million (\$4.04 per share), and 2022 with \$54.9 million (\$6.17 per share) of cash with no debt.

Risks

Regulatory Environment. As a company based in Europe, G5 operates under the General Data Protection Regulation (GDPR), which sets strict guidelines around the commercial use of personal data. Regulatory frameworks differ from jurisdiction to jurisdiction, and G5's competitors may not face as intense restrictions, which could put G5 at a disadvantage in targeting marketing campaigns.

Revenue Concentration. We think 30%-40% of G5's revenue is generated from a single game released in 2014. At the current concentration, if consumer preference moved rapidly away from the game, it is unlikely that the company could offset the loss of revenue in the near term. We think that would result in a loss of revenue, profitability, and cash flow.

Fees From Mobile Companies. G5 relies on Google's Play Store and Apple's App Store for distribution, payment infrastructure, and visibility, which charge about 30% of revenue G5 generates through in-game purchases. We think these mobile companies hold significant leverage as owners of the platform, and if they chose to raise fees higher, there is little G5 could do. However, the mobile companies are beginning to face market share questions from antitrust investigations, and some of them focus on app store fees. We think the combination of government scrutiny and lack of apparent competition beyond Apple/Google will keep the commission structure stable for the foreseeable future.

Valuation

G5 trades at about 21x our 2021 EPS estimate, in line with Zynga's 21x, a premium to Rovio's 16x, above GLU's 17x, and below Activision Blizzard's 24x. Glu Mobile does not have a history of generating earnings and thus does not have a reportable P/E multiple for comparison. G5 historically traded at 14.1x forward earnings.

On EV/Sales, G5 trades at about 1.8x, versus GLUU's 2.0x, Rovio's 1.3x, Zynga's 3.4x, and Activision's 7.3x. G5 historically traded at a median of 1.0x.

Rovio's diversification beyond mobile gaming, in addition to lower growth, may explain some of the discount to the other members of the peer group.

We think G5 is entering a virtuous cycle after years of investment in internal game development capabilities. The company will keep the economics of successful games in-house, leaving more to fund future growth through additional R&D, more aggressive customer acquisition, or potential M&A. Further, we consider that with Jewels of Rome approaching a \$32 million annual revenue contribution and newer Match-3 games following similar trajectories less than four quarters behind, we think G5 revenue could be on pace for as much as \$250 million in 18-24 months, excluding the potential for other successful launches over that time period.

We apply a 23x multiple to our 2022 EPS estimate of \$2.35 to arrive at a \$54 price target. We think this multiple is a fair reflection of the higher growth constituents of the peer group which trades at a median of around 21x forward earnings.

Exhibit 3: Mobile Gaming Valuation Comp Table

Name	Symbol	Mkt Cap	EV	Sales (2021E)	Sales Growth (%)	EV/Sales (ttm)	P/E (2021E)
Zynga	ZNGA	\$9,410	\$8,996	\$2,683.3	40.3%	3.4	21.3
Glu Mobile	GLUU	\$1,298	\$1,157	\$585.3	33.3%	2.0	17.3
Activision	ATVI	\$60,986	\$58,399	\$8,029.5	3.4%	7.3	23.6
Rovio	ROVVF	\$557	\$445	\$333.3	-0.6%	1.3	16.0
Median		\$5,354.3	\$5,076.7	\$1,634.3	19.1%	2.7	19.3
G5 Entertainment	GENTF	\$332.2	\$331.0	\$186.5	15.3%	1.8	21.4

Source: FactSet, Company Reports

G5 ENTERTAINMENT AB

2018	Mar	June	Sept	Dec	2019	MarA	JuneA	SeptE	DecE	2020E	MarE	JuneE	SeptE	DecE	2021E	MarE	JuneE	SeptE	DecE	2022E
165.7	35.0	34.0	34.5	37.5	140.9	35.7	43.0	41.3	42.5	162.5	45.0	45.1	46.3	50.2	186.5	49.4	50.6	53.9	58.3	212.2
80.3	16.4	15.5	12.4	16.5	60.8	15.5	18.3	18.0	18.7	70.4	19.0	18.9	19.2	20.8	77.9	20.5	20.7	21.6	23.2	86.0
50.3	10.7	10.4	10.5	11.3	42.9	10.6	12.7	12.4	12.8	48.5	13.5	13.5	13.9	15.0	55.9	14.8	15.2	16.2	17.5	63.7
30.0	5.8	5.1	1.9	5.2	17.9	4.9	5.6	5.6	6.0	22.0	5.5	5.4	5.3	5.8	22.0	5.7	5.6	5.4	5.7	22.3
85.4	18.5	18.5	22.1	21.0	80.1	20.2	24.7	23.3	23.8	92.1	26.0	26.1	27.1	29.3	108.6	28.9	29.9	32.3	35.1	126.2
16.1	4.6	5.0	5.4	6.2	21.2	5.6	5.8	6.0	6.2	23.6	7.0	7.0	7.2	7.5	28.7	7.4	7.6	8.1	8.7	31.8
29.3	7.9	7.9	8.5	9.8	34.2	9.2	11.9	11.7	11.9	44.7	12.7	12.7	12.9	13.2	51.5	13.1	13.3	13.8	14.5	54.7
45.7	7.6	9.4	15.3	12.3	44.5	9.1	10.7	10.7	14.0	44.6	11.5	11.5	12.7	16.6	52.2	12.6	12.9	14.8	19.2	59.6
7.3	1.9	2.1	2.0	2.5	8.5	2.2	2.0	2.3	2.1	8.6	2.4	2.3	2.5	2.5	9.6	2.5	2.5	2.7	2.9	10.6
0.1	0.1	0.1	0.4	0.5	1.0	1.2	(1.0)	0.0	0.0	0.2	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
0.1	0.0	0.0	0.1	0.0	0.2	0.0	0.1	0.0	0.0	0.2	0.0	0.0	0.0	0.0	0.1	0.0	0.0	0.0	0.0	0.1
69.3	14.2	16.6	23.1	21.5	75.3	18.1	17.7	19.0	22.4	77.2	20.9	20.7	22.4	26.6	90.6	22.5	23.0	25.6	30.9	102.1
16.4	4.6	2.1	(0.3)	0.5	6.8	4.4	5.1	4.3	1.5	15.3	5.1	5.4	4.7	2.7	17.9	6.4	6.8	6.7	4.2	24.1
0.0	0.0	0.0	0.0	0.0	0.1	0.0	0.0	0.0	0.0	0.1	0.0	0.0	0.0	0.0	0.1	0.0	0.0	0.0	0.0	0.1
(0.2)	(0.0)	(0.0)	(0.0)	(0.0)	(0.1)	(0.0)	(0.0)	(0.0)	(0.0)	(0.1)	(0.0)	(0.0)	(0.0)	(0.0)	(0.1)	(0.0)	(0.0)	(0.0)	(0.0)	(0.1)
16.4	4.6	2.1	(0.3)	0.4	6.8	4.4	5.1	4.3	1.5	15.3	5.1	5.4	4.7	2.7	17.9	6.4	6.8	6.7	4.2	24.0
(1.7)	(0.5)	(0.2)	(0.1)	(0.0)	(0.8)	(0.6)	(0.6)	(0.6)	(0.2)	(1.9)	(0.7)	(0.7)	(0.6)	(0.4)	(2.3)	(0.8)	(0.9)	(0.9)	(0.5)	(3.1)
14.7	4.1	1.9	(0.4)	0.4	6.1	3.8	4.5	3.7	1.3	13.3	4.4	4.7	4.1	2.4	15.6	5.6	5.9	5.8	3.6	20.9
\$1.63	\$0.45	\$0.21	(\$0.04)	\$0.05	\$0.67	\$0.42	\$0.51	\$0.42	\$0.14	\$1.50	\$0.50	\$0.53	\$0.46	\$0.27	\$1.75	\$0.62	\$0.66	\$0.66	\$0.41	\$2.35
8.9	9.0	9.0	9.0	9.0	9.0	9.0	8.9	8.9	8.9	8.9	8.9	8.9	8.9	8.9	8.9	8.9	8.9	8.9	8.9	8.9
9.0	9.1	9.0	9.0	9.0	9.1	9.0	8.9	8.9	8.9	8.9	8.9	8.9	8.9	8.9	8.9	8.9	8.9	8.9	8.9	8.9

27.7%	-17.9%	-24.7%	-11.8%	-3.7%	-15.0%	1.9%	26.6%	19.8%	13.5%	15.3%	26.2%	4.8%	12.1%	17.9%	14.8%	9.7%	12.3%	16.5%	16.2%	13.8%
21.7%	-23.0%	-29.0%	-34.0%	-10.5%	-24.3%	-6.0%	18.2%	45.0%	13.4%	15.8%	22.8%	3.5%	6.9%	11.2%	10.7%	7.9%	9.7%	12.3%	11.4%	10.3%
33.9%	-12.7%	-20.7%	8.8%	2.5%	-6.1%	8.9%	33.5%	5.7%	13.5%	14.9%	28.8%	5.7%	16.0%	23.2%	17.9%	11.0%	14.3%	19.5%	19.6%	16.2%
68.0%	67.4%	24.6%	14.4%	34.7%	31.8%	22.5%	16.4%	11.5%	-0.8%	11.5%	23.6%	20.5%	19.8%	22.0%	21.4%	6.2%	8.7%	12.7%	16.2%	11.1%
66.6%	41.6%	3.2%	4.1%	25.4%	16.7%	15.5%	50.0%	37.6%	20.9%	30.6%	38.3%	6.6%	10.1%	11.4%	15.3%	3.4%	4.8%	7.1%	9.2%	6.2%
20.3%	-33.4%	-19.4%	39.2%	4.8%	-2.6%	20.1%	14.0%	-29.6%	14.2%	0.1%	26.4%	7.2%	18.5%	17.9%	17.2%	9.7%	12.3%	16.5%	16.2%	14.0%
25.3%	-9.4%	-5.7%	34.2%	14.1%	8.8%	28.0%	6.5%	-17.7%	4.2%	2.5%	15.3%	17.3%	17.7%	19.0%	17.4%	7.6%	11.1%	14.5%	16.2%	12.6%
41.0%	-19.3%	-63.0%	-110.6%	-78.7%	-58.4%	-2.7%	141.5%	NM	223.1%	124.6%	15.3%	5.2%	8.9%	86.6%	17.0%	25.2%	26.5%	43.0%	52.6%	34.4%
44.2%	-18.5%	-62.5%	-114.9%	-78.4%	-58.8%	-6.6%	132.6%	NM	201.0%	119.7%	15.7%	4.2%	8.9%	87.3%	16.7%	25.3%	26.5%	43.1%	52.8%	34.5%

51.5%	53.0%	54.5%	64.1%	56.0%	56.9%	56.6%	57.5%	56.5%	56.0%	56.7%	57.8%	58.0%	58.5%	58.5%	58.2%	58.5%	59.0%	60.0%	60.2%	59.5%
9.7%	13.2%	14.6%	15.6%	16.6%	15.0%	15.8%	13.5%	14.5%	14.5%	14.5%	15.5%	15.5%	15.5%	15.0%	15.4%	15.0%	15.0%	15.0%	15.0%	15.0%
8.0%	9.5%	8.7%	9.1%	9.6%	9.3%	9.9%	14.2%	13.8%	13.4%	13.0%	12.7%	12.7%	12.3%	11.4%	12.3%	11.6%	11.3%	10.6%	9.8%	10.8%
17.7%	22.7%	23.4%	24.7%	26.2%	24.3%	25.7%	27.7%	28.3%	27.9%	27.5%	28.2%	28.2%	27.8%	26.4%	27.6%	26.6%	26.3%	25.6%	24.8%	25.8%
13.8%	15.8%	19.2%	19.6%	19.7%	18.5%	18.2%	10.8%	12.0%	12.3%	12.8%	14.0%	14.0%	14.3%	15.0%	14.3%	14.8%	15.2%	16.2%	17.5%	15.9%
27.6%	21.6%	27.7%	44.3%	32.8%	31.6%	25.5%	24.9%	26.0%	33.0%	27.4%	25.5%	25.5%	27.5%	33.0%	28.0%	25.5%	25.5%	27.5%	33.0%	28.1%
26.0%	19.5%	25.4%	41.6%	29.1%	28.9%	21.9%	21.9%	22.0%	22.0%	21.9%	22.0%	22.0%	22.0%	22.0%	22.0%	22.0%	22.0%	22.0%	22.0%	22.0%
4.4%	5.4%	6.1%	5.9%	6.6%	6.0%	6.1%	4.7%	5.5%	5.0%	5.3%	5.4%	5.0%	5.3%	5.0%	5.2%	5.0%	5.0%	5.0%	5.0%	5.0%
9.9%	13.0%	6.2%	-0.9%	1.2%	4.8%	12.4%	11.9%	10.4%	3.4%	9.4%	11.3%	11.9%	10.2%	5.5%	9.6%	13.0%	13.5%	12.5%	7.2%	11.4%
8.9%	11.7%	5.7%	-1.1%	1.1%	4.3%	10.7%	10.4%	9.1%	3.0%	8.2%	9.9%	10.4%	8.8%	4.7%	8.3%	11.2%	11.7%	10.8%	6.2%	9.9%

estimates

Swedish Krona.

JSD per Swedish Krona across historical and projected periods.

if there is a material change in the exchange rate from our last published report.

G5 ENTERTAINMENT AB

Table 2: G5 Entertainment Cash Flow Statement
(\$ in millions, except per share data)

	2018	Mar	June	Sept	Dec	2019	MarA	JuneA	SeptE	DecE	2020E	MarE	JuneE	SeptE	DecE	2021E	2022E
Profit after financial items	16.4	4.6	2.1	(0.3)	(0.5)	5.9	4.4	5.1	4.3	1.5	15.3	5.1	5.4	4.7	2.7	17.9	24.0
Adjusting items not included in cash flow	11.0	3.3	2.9	3.3	4.2	13.8	3.7	6.1	6.1	6.1	22.0	6.1	6.1	6.1	6.1	24.4	24.4
Taxes received	(1.4)	(0.1)	(3.3)	0.8	3.4	0.8	(0.1)	(6.0)	6.0	0.0	(0.1)	0.0	0.0	0.0	0.0	0.0	0.0
Change in operating receivables	4.2	(3.3)	1.3	(1.5)	3.5	(0.0)	(3.5)	(1.2)	0.0	0.0	(4.7)	(1.1)	0.0	0.0	0.0	(1.1)	(2.3)
Change in operating liabilities	(5.3)	(0.7)	1.1	1.7	(3.8)	(1.7)	2.8	0.0	0.0	0.0	2.9	0.0	0.0	0.0	0.0	0.0	0.0
Cash flow from operating activities	24.9	3.8	4.2	4.0	6.8	18.7	7.4	4.1	16.4	7.6	35.4	10.1	11.5	10.8	8.8	41.2	46.2
Investment in fixed assets	(0.9)	(0.3)	(0.4)	(0.1)	(0.2)	(1.0)	(0.1)	(0.1)	(0.1)	(0.1)	(0.2)	(0.1)	(0.1)	(0.1)	(0.1)	(0.2)	(0.2)
Investment in intangible assets	(2.2)	(0.2)	(0.0)	(0.0)	0.0	(0.2)	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Capitalized development expenses	(13.3)	(3.3)	(3.0)	(3.1)	(3.6)	(13.0)	(3.5)	(6.1)	(5.7)	(5.7)	(21.1)	(5.7)	(5.7)	(5.7)	(5.7)	(22.9)	(22.9)
Cash flow from investing activities	(16.3)	(3.8)	(3.3)	(3.3)	(3.8)	(14.2)	(3.6)	(6.2)	(5.8)	(5.8)	(21.3)	(5.8)	(5.8)	(5.8)	(5.8)	(23.1)	(23.1)
Lease payments, IFRS16	0.0	0.0	0.0	(0.2)	(0.3)	(0.6)	(0.3)	(0.3)	(0.3)	(0.3)	(1.4)	(0.3)	(0.3)	(0.3)	(0.3)	(1.4)	(1.4)
Short term loan	0.0	0.0	0.0	0.0	0.0	0.0	0.0	4.8	(4.8)	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Dividend	(2.5)	0.0	(2.6)	0.0	0.0	(2.6)	0.0	(2.5)	0.0	0.0	(2.5)	0.0	(2.6)	0.0	0.0	(2.6)	(2.6)
Share issuance - C Class	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Repurchase shares - C Class	0.0	0.0	(0.0)	0.0	0.0	(0.0)	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Repurchase ordinary shares	0.0	0.0	0.0	0.0	0.0	0.0	0.0	(5.7)	0.0	0.0	(5.7)	0.0	0.0	0.0	0.0	0.0	0.0
Premiums warrant program	1.0	0.0	0.0	0.0	0.4	0.4	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Repurchase of issued warrants	(1.9)	(0.0)	0.0	0.0	(0.2)	(0.2)	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Cash flow from financing activities	(3.4)	(0.0)	(2.6)	(0.2)	(0.1)	(2.9)	(0.3)	(3.7)	(5.1)	(0.3)	(9.5)	(0.3)	(2.9)	(0.3)	(0.3)	(3.9)	(3.9)
Cash at beginning of period	10.4	15.8	15.8	14.3	14.7	15.8	17.4	21.2	15.0	20.5	17.4	21.9	25.8	28.6	33.2	21.9	35.9
Cash flow	5.1	(0.1)	(1.8)	0.4	2.9	1.5	3.4	(5.8)	5.5	1.4	4.6	4.0	2.8	4.7	2.7	14.1	19.1
Exchange rate differences	0.3	0.0	0.2	(0.0)	(0.2)	0.0	0.4	(0.4)	0.0	0.0	(0.1)	(0.1)	0.0	0.0	0.0	(0.1)	(0.1)
Cash at end of period	15.8	15.8	14.3	14.7	17.4	17.4	21.2	15.0	20.5	21.9	21.9	25.8	28.6	33.2	35.9	35.9	54.9
FCF (Outflow)	10.7	0.2	0.8	0.7	3.0	4.7	3.8	(2.1)	10.6	1.8	14.1	4.3	5.7	5.0	3.1	18.1	23.1
FCF (Outflow) per share	\$1.19	\$0.02	\$0.09	\$0.08	\$0.33	\$0.52	\$0.42	(\$0.24)	\$1.19	\$0.20	\$1.58	\$0.49	\$0.64	\$0.56	\$0.34	\$2.03	\$2.59

Sources: Company reports and Sidoti & Company, LLC estimates

Notes: 1. G5 reports under IFRS standards and in the Swedish Krona.

2. We translate results to US Dollars at a rate of 0.11 USD per Swedish Krona across historical and projected periods.

3. We will update all periods if there is a material change in the exchange rate from our last published report.

G5 ENTERTAINMENT AB

Table 3: G5 Entertainment Balance Sheet
(\$ in millions, except per share data)

	2018	Mar	June	Sept	2019	MarA	JuneA	SeptE	2020E	Mar	June	Sept	2021E	2022E
Cash and cash equivalents	15.8	15.8	14.3	14.7	17.4	21.2	15.0	20.5	21.9	25.8	28.6	33.2	35.9	54.9
Accounts receivable	0.4	3.7	0.0	0.0	0.2	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Tax receivable	1.1	4.9	5.1	4.0	0.3	0.1	0.5	0.5	0.5	0.5	0.5	0.5	0.5	0.5
Other receivables	0.5	0.9	1.0	1.1	1.1	0.4	0.5	0.5	0.5	0.5	0.5	0.5	0.5	0.5
Prepaid expenses and accrued income	11.8	11.3	13.5	15.1	11.7	15.8	17.2	17.2	17.2	18.3	18.3	18.3	18.3	20.6
Total current assets	29.7	36.6	33.9	34.8	30.6	37.6	33.2	38.7	40.1	45.1	47.8	52.5	55.2	76.5
Capitalized development expenses	22.6	23.9	24.2	25.6	24.2	26.5	24.8	30.6	36.3	42.0	47.7	53.4	59.1	82.0
Equipment	1.3	3.6	3.7	4.0	3.6	3.3	2.8	2.9	3.0	3.0	3.1	3.1	3.2	3.4
Deferred tax receivable	7.4	5.2	5.5	4.6	4.3	4.7	6.2	6.2	6.2	6.2	6.2	6.2	6.2	6.2
Total non-current assets	31.3	32.8	33.3	34.2	32.0	34.4	33.9	39.7	45.4	51.2	57.0	62.7	68.5	91.6
Total assets	61.0	69.3	67.2	69.0	62.7	72.0	67.1	78.3	85.5	96.3	104.8	115.3	123.7	168.1
Short-term liabilities	0.0	0.9	0.9	1.2	0.0	1.2	6.0	6.0	6.0	6.0	6.0	6.0	6.0	6.0
Accounts payable	3.0	2.4	4.6	8.4	3.0	4.9	3.9	3.9	3.9	3.9	3.9	3.9	3.9	3.9
Accrued expenses	9.5	8.7	7.8	5.2	7.4	7.6	7.8	7.8	7.8	7.8	7.8	7.8	7.8	7.8
Tax liabilities	8.8	10.6	7.9	7.1	6.3	7.7	3.6	3.6	3.6	3.6	3.6	3.6	3.6	3.6
Other liabilities	0.0	0.7	0.8	1.1	0.1	1.1	1.8	1.8	1.8	1.8	1.8	1.8	1.8	1.8
Total current liabilities	21.2	23.3	22.0	23.0	18.1	22.5	23.0	23.0	23.0	23.0	23.0	23.0	23.0	23.0
Deferred tax liabilities	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Long-term liabilities	0.0	1.2	0.9	0.8	0.5	0.5	0.2	0.2	0.2	0.2	0.2	0.2	0.2	0.2
Total non-current liabilities	0.0	1.2	0.9	0.8	0.5	0.5	0.2	0.2	0.2	0.2	0.2	0.2	0.2	0.2
Equity	39.7	44.8	44.3	45.2	44.1	49.1	43.9	55.1	62.4	73.1	81.6	92.1	100.6	145.0
Total equity and liabilities	61.0	69.3	67.2	69.0	62.7	72.0	67.1	78.3	85.5	96.3	104.8	115.3	123.7	168.1
Metrics														
Cash and equivalents	\$15.8	\$15.8	\$14.3	\$14.7	\$17.4	\$21.2	\$15.0	\$20.5	\$21.9	\$25.8	\$28.6	\$33.2	\$35.9	\$54.9
Cash and equivalents (per share)	\$1.74	\$1.74	\$1.58	\$1.63	\$1.93	\$2.35	\$1.69	\$2.31	\$2.47	\$2.90	\$3.21	\$3.73	\$4.04	\$6.17
Return on assets (ttm)	26.9%	21.9%	16.5%	12.0%	9.8%	8.2%	12.4%	16.9%	18.0%	16.6%	16.4%	14.9%	14.9%	14.3%
Return on equity (ttm)	44.6%	36.3%	27.2%	18.5%	14.5%	12.3%	18.9%	24.9%	25.0%	22.8%	22.5%	19.6%	19.1%	17.0%

Sources: Company reports and Sidoti & Company, LLC estimates

Notes: 1. G5 reports under IFRS standards and in the Swedish Krona.

2. We translate results to US Dollars at a rate of 0.11 USD per Swedish Krona across historical and projected periods.

3. We will update all periods if there is a material change in the exchange rate from our last published report.

Appendix Required Disclosures

Required Disclosures

G5 Entertainment AB (GENTF-\$37.73) NR Price Target: \$54 Risk Rating: M



Risks

Regulatory Environment. As a company based in Europe, G5 operates under the General Data Protection Regulation (GDPR), which sets strict guidelines around the commercial use of personal data. Regulatory frameworks differ from jurisdiction to jurisdiction, and G5's competitors may not face as intense restrictions, which could put G5 at a disadvantage in targeting marketing campaigns.

Revenue Concentration. We think 30%-40% of G5's revenue is generated from a single game released in 2014. At the current concentration, if consumer preference moved rapidly away from the game, it is unlikely that the company could offset the loss of revenue in the near term. We think that would result in a loss of revenue, profitability, and cash flow.

Fees From Mobile Companies. G5 relies on Google's Play Store and Apple's App Store for distribution, payment infrastructure, and visibility, which charge about 30% of revenue G5 generates through in-game purchases. We think these mobile companies hold significant leverage as owners of the platform, and if they chose to raise fees higher, there is little G5 could do. However, the

Exhibit 3: Mobile Gaming Valuation Comp Table

Name	Symbol	Mkt Cap	EV	Sales (2021E)	Sales Growth (%)	EV/Sales (ttm)	P/E (2021E)
Zynga	ZNGA	\$9,410	\$8,996	\$2,683.3	40.3%	3.4	21.3
Glu Mobile	GLUU	\$1,298	\$1,157	\$585.3	33.3%	2.0	17.3
Activision	ATVI	\$60,986	\$58,399	\$8,029.5	3.4%	7.3	23.6
Rovio	ROVVF	\$557	\$445	\$333.3	-0.6%	1.3	16.0
<i>Median</i>		\$5,354.3	\$5,076.7	\$1,634.3	19.1%	2.7	19.3
G5 Entertainment	GENTF	\$332.2	\$331.0	\$186.5	15.3%	1.8	21.4

Source: FactSet, Company Reports

mobile companies are beginning to face market share questions from antitrust investigations, and some of them focus on app store fees. We think the combination of government scrutiny and lack of apparent competition beyond Apple/Google will keep the commission structure stable for the foreseeable future.

Valuation

G5 trades at about 21x our 2021 EPS estimate, in line with Zynga's 21x, a premium to Rovio's 16x, above GLU's 17x, and below Activision Blizzard's 24x. Glu Mobile does not have a history of generating earnings and thus does not have a reportable P/E multiple for comparison. G5 historically traded at 14.1x forward earnings.

On EV/Sales, G5 trades at about 1.8x, versus GLUU's 2.0x, Rovio's 1.3x, Zynga's 3.4x, and Activision's 7.3x. G5 historically traded at a median of 1.0x.

Rovio's diversification beyond mobile gaming, in addition to lower growth, may explain some of the discount to the other members of the peer group.

Appendix

Required Disclosures

We think G5 is entering a virtuous cycle after years of investment in internal game development capabilities. The company will keep the economics of successful games in-house, leaving more to fund future growth through additional R&D, more aggressive customer acquisition, or potential M&A. Further, we consider that with Jewels of Rome approaching a \$32 million annual revenue contribution and newer Match-3 games following similar trajectories less than four quarters behind, we think G5 revenue could be on pace for as much as \$250 million in 18-24 months, excluding the potential for other successful launches over that time period.

We apply a 23x multiple to our 2022 EPS estimate of \$2.35 to arrive at a \$54 price target. We think this multiple is a fair reflection of the higher growth constituents of the peer group which trades at a median of around 21x forward earnings

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