

Short term turnaround in a growing market.

Stillfront Group is a leading free-to-play powerhouse containing 22 gaming studios and a well diversified games portfolio with two common themes, loyal users and long lifecycle games. Through organic growth and acquisitions, they aim to become the largest free-to-play powerhouse globally. Today, the group has over 60 million monthly active users across all its platforms with main markets in US, Canada, Germany, UK and the MENA region. The monthly paying user amounts up to 1.37 million users while the average revenue per daily active user equals to 1.1 SEK for the latest quarter.

The gaming sector is estimated to, by the end of 2023, grow with a CAGR of 8,7%, in which mobile gaming constitutes more than half of the growth. Being an industry leader with exposure to primarily mobile, as well as PC, console and browser platforms, we believe that Stillfront Group is well established to capture future growth in the gaming industry.

Due to the recent pandemic, revenue has increased significantly during the year 2020. However, throughout the year of 2021, the organic growth has shown to be negative. Despite that, we can still presume that, through the group's upcoming and recent acquisition of different studios, their strong pipeline, and the current underlying trend in the gaming sector, growth will continue to increase and organic growth will return to positive in near future.

Based on a DCF model we believe that the intrinsic value of the share is around 70,24 SEK as a base scenario, an upside of 56,1% compared to the current market price.

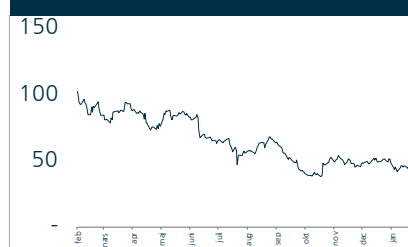
Fair Value Range (SEK)

Bear	Base	Bull
53.95	70.24	96.23

Key Data (SEK)

Sector	Entertainment
Ticker	SF.ST
Market	OMXS
Share Price	45.3
Market Cap	M 19 860
Shares fully dil.	376.664.420

Share Price - 12M



Financials (SEKm)	2019	2020	2021E	2022E	2023E
Revenue	1 967	3 991	5 446	6 261	6 906
Adj. EBIT	518	1 493	1 800	2 110	2 374
Adj. EBITDA	742	1 553	2 025	2 484	2 806
EPS (SEK)	1.34	1.78	1.62	2.69	3.23
<i>Revenue growth %</i>	<i>48.45</i>	<i>102.90</i>	<i>36.46</i>	<i>14.97</i>	<i>10.30</i>

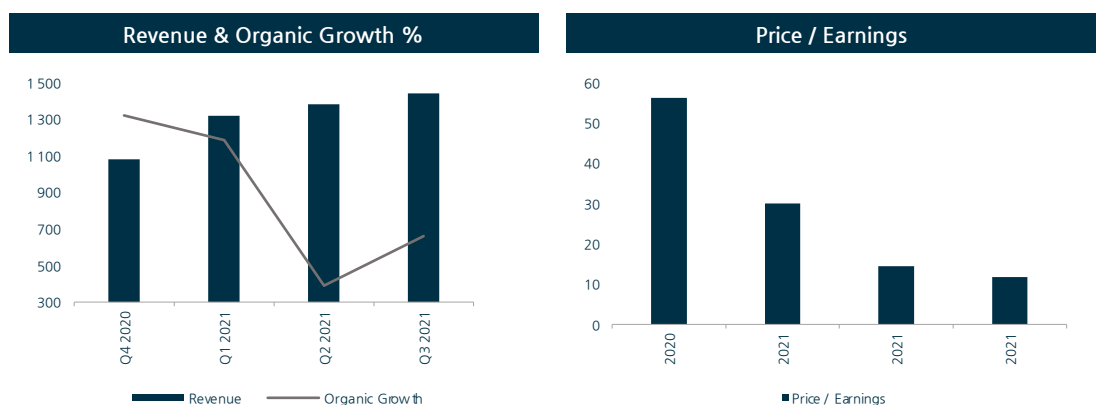
Investment Thesis

The COVID-19 pandemic and shifting trends has resulted in an increased interest for gaming across the world, and this is reflected in the gaming industry's significant growth. In 2020, the gaming market generated a revenue of \$177.8B, that is, up +23.1% year on year. This market trend is anticipated to persist with an estimated CAGR of 8.7% until year 2024, generating \$218.7B. The mobile platform accounts for more than half of the growth, which also happens to be the segment of Stillfront's portfolio that generates more than half of the company's revenue.

Currently Stillfront mainly operates in Europe, MENA, US and Canada. Through the recent acquisition of 6waves, Stillfront has also managed to expand its exposure to East Asia, more specifically Japan which has the highest app and games spending per capita in the world as of 2021.

Due to the pandemic, Stillfront had a growth in net revenue of 96% year on year, as well as a stronger user inflow, particularly for the studio Storm8 which grew its revenues significantly in both Q2'20 and Q3'20. As a result, the group has faced hard comparative figures and has had a notable negative organic growth during 2021. Changes in platform providers policy making has also contributed to the growth. Looking at Q3'21, Stillfront has shown strong indications of returning to its positive organic growth. If excluding the effect of Storm8, Stillfront would have had positive organic bookings growth on a group level in Q3'21. In an indicative report the group has signalled that they achieved a positive organic growth in December of 2021 meaning that Stillfront might be near a turning point. Furthermore, looking at historical and forward looking P/E ratios it is apparent that the valuation is at a historical low reaching 13.8 in 2023. These factors together create an attractive entry point for Stillfront.

We believe that due to the underlying market trend, previous and upcoming acquisitions, an attractive valuation and the position as one of the leading free-to-play powerhouses, Stillfront Group will continue to grow strongly, regain a positive organic growth and generate future value.



Strategy and Operations Analysis

Low risk, long lifecycle games

Stillfront's business model centralizes around two strategies, (1) to have a diversified portfolio of games with strong interactive play systems, and (2) to develop games with long lifetime values. The group is able to capture a broad spectra of costumers by offering a heavily mixed portfolio consisting of 60 games, all divided into three product areas - Strategy; Simulation, RPG & Action; and Casual & Mash-up - and by which almost all of them are free-to-play (F2P) games. The portfolio mix enables for diversified revenue streams without having to depend heavily on the success of a few specific titles and acts as a method for risk mitigation.

Stillfront's free-to-play (F2P) games allow the user access to the game without paying for it. The users are then, in turn, able to make purchases or pay for access to new content throughout the lifetime of the game. This enables users who can not pay an upfront premium to participate. Furthermore, Stillfront utilizes live ops, that is, regular updates made continuously in games in order to maintain and create new interest among users. The longer and more users spend on building their gaming experience, the more loyal they become which in succession make them less likely to suddenly quit. By actively managing the portfolio and working with live ops, Stillfront increases both the lifecycle and monetization in their games, while simultaneously generating a recurring income from the purchases made by frequent users.

All of this forms the basis to provide the cash flows for developing and financing new launches which require small initial investments.

The group's diversified portfolio is achieved through their acquisition and development of game studios. The company corporate with their studios through their operational platform, Stillops platform, ensuring that studios can access data, knowledge and tools gathered across the groups studios enabling positive synergies. By having access to user data derived from several billion game downloads across their diversified portfolio, their studios can share best-practice despite their geographical position.

By successfully attaining and retaining users through their F2P-model, creating positive synergies through Stillops platform and actively managing their portfolio of games, Stillfront is set to continue generate high profitable growth over years to come.

Sales by segment Q3'2021



- Casual/Mashup
- Strategy
- RPG/Action

Management & Ownership

Jörgen Larsson, CEO

Co-founder and former Chairman of ESN, Partner at 4P Consulting, as well as the Founder and CEO of Stillfront as of 2005.

Holdings: 1,505,800



Dr. Kai Wawrzinek, Board member

Founder and CEO of Goodgame studios. Managing director at Laureus Capital GmbH.

Holdings: 46,460,257



Andreas Uddman, CFO

Uddman has acted as CFO for various organizations, such as Qliro and Vireo Energy.

Holdings: 30,000



Jan Samuelsson, Chairman of the Board

Extensive experience from board work in listed as well as private companies, having acted as either the chairman of the board or board member of said organizations.

Holdings: 200,000



Ownership Structure

Owner	Shares %	Votes %
Laureus Capital GmbH	12.00	12.00
Swedbank Robur Funds	9.70	9.7
SEB Funds	6.28	6.28
Handelsbanken Funds	4.06	4.06
Fidelity Investments (FMR)	3.64	3.64
Columbia Threadneedle	3.51	3.51
First Swedish National Pension Fund	3.07	3.07
AMF Pension & Funds	2.49	2.49
Man Hay Tam	1.35	1.35
TIN Funds	1.31	1.31
Total	47.42	47.42
Other	52.58	52.58

Valuation

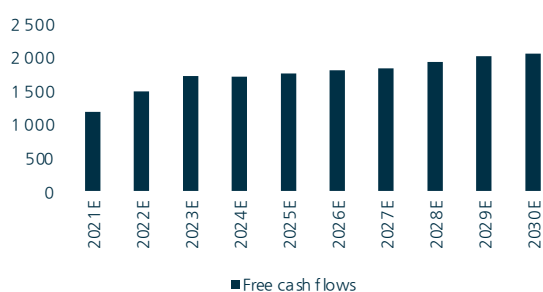
The presented DCF model is based on an average of current market forecasts up until the year 2023, where we assume an perpetual growth rate of 2.0% and an EBITDA exit multiple of 7x. Net revenue is assumed to decline at a rate of 1.2% per year starting from 2024 until reaching a steady state at 2.0%. This is conservative compared to Stillfront's own goals, MSEK 10000 in revenue in 2023. The EBIT margin is assumed to reach 25.47% after year 2023 based on historical performance. Furthermore the discount rate is set to 7.9%

Under these assumptions our model suggest a fair value around SEK 70,24 per share. Compared to the current value of SEK 45.3, this gives an upside of 56.1%.

DCF - MSEK	2021E	2022E	2023E	2024E	2025E	2026E	2027E	2028E	2029E	2030E
Revenue	5 446	6 261	6 906	7 617	8 311	8 967	9 568	10 095	10 529	10 740
EBIT	1 081	1 489	1 754	1 935	2 111	2 278	2 430	2 564	2 674	2 728
Cash Taxes	223	307	361	399	435	469	501	528	551	562
D&A	944	990	1 052	1 057	1 080	1 076	1 053	1 110	1 158	1 181
CapEx	539	612	650	800	914	986	1 053	1 110	1 158	1 181
Change NWC	76	63	69	76	83	90	96	101	105	107
Free Cash Flow	1 187	1 498	1 726	1 717	1 759	1 809	1 834	1 935	2 018	2 059

Inputs %	2021E	2022E	2023E	2024E	2025E	2026E	2027E	2028E	2029E	2030E
Revenue growth	36.5	15.0	10.3	10.3	9.1	7.9	6.7	5.5	4.3	2.0
EBIT margin	19.8	23.8	25.4	25.4	25.4	25.4	25.4	25.4	25.4	25.4
Tax rate	20.6	20.6	20.6	20.6	20.6	20.6	20.6	20.6	20.6	20.6
D&A % of revenue	17.3	15.8	15.2	13.9	13.0	12.0	11.0	11.0	11.0	11.0
CapEx % of revenue	9.9	9.8	9.4	10.5	11.0	11.0	11.0	11.0	11.0	11.0

Free Cash Flows



DCF assumptions

NPV of FCF	12 394	Beta	1.1
NPV of TV	15 879	Equity risk premium	8.0%
Enterprise value	28 272	Risk free rate	1.5%
Net debt	(2 816)	Cost of equity	8.7%
Other Adjustments	1 000	After tax cost of debt	4.5%
DCF Value of equity	26 456		
DCF value per share	70.24	WACC	7.9%

WACC

Terminal Growth

	1.0%	1.5%	2.0%	2.5%	3.0%
10.0%	53.95	54.78	55.72	56.78	57.99
9.0%	59.32	60.46	61.77	63.27	65.03
7.9%	66.59	68.27	70.24	72.58	75.39
7.0%	74.08	76.49	79.38	82.91	87.33
6.2%	82.46	85.91	90.19	95.63	102.76

EBITDA Multiple

	5	6	7	8	9
10.0%	51.31	53.52	55.72	57.92	60.12
9.0%	56.99	59.38	61.77	64.16	66.55
7.9%	65.01	67.63	70.24	72.86	75.48
7.0%	73.73	76.55	79.38	82.2	85.02
6.2%	84.15	87.17	90.19	93.21	96.23

Peer analysis

In comparison to other mobile free-to-play focused companies, such as Zynga and MTG, Stillfront has observably a lower trailing twelve month EV/EBITDA and shows a strong EBIT-margin. Stillfront also operates in a relatively larger geographical area which presents more opportunities abroad, such as increased growth potential. We see that Stillfront has a higher sales growth then the median

Relative to the whole gaming market, Stillfront's trailing P/E is in the same range as some of its competitors, however their estimated EV/EBITDA seems to be below the industry average at a multiple of 10.3x.

Company (MSEK)	Sales 2021E	Sales % 2021E	EBIT % 2021E	PE (TTM)	EV/EBITDA (TTM)	ROIC - % (TTM)
Embracer	15 471	71.0	31.0	(65.3x)	15.53x	(1.9)
Zynga	25 794	24.20	22.5	38x	18.5x	(2.0)
Paradox Interactive	1 541	(14.2)	21.4	109.2x	23.2x	14.7
G5-entertainment	1 340	(1.2)	17.0	13.4x	7.8x	62.8
MTG	5 338	33.6	4.8	(349.6x)	27.5x	(0.3)
EG7	1 970	245.6	16.4	(27.3x)	10.3x	(1.9)
Stillfront	5 447	36.5	33.0	27.9x	10.3x	4.3
Median		33.6	21.4	13.4x	15.53x	4.3

Case Summary

Long term growth in the industry

The recent gained global interest for gaming has resulted in a significant growth in the gaming industry, and it is expected for it to continue to grow by 8.7% CAGR until 2024. The mobile platform accounts for more than half of this growth, the segment which a majority of Stillfront's portfolio is exposed to. We believe that Stillfront is well positioned to capture further growth in the industry.

Short term turnaround

The recent year has shown to be a tough one with extraordinary comparative figures from 2020 and a negative organic growth. However, in Q3'21 figures suggested a return of positive organic growth. In an indicative report for Q4'21 the group has signalled that they achieved a positive organic growth in December of 2021 meaning that Stillfront might be near a turning point.

We believe that due to the underlying market trend, previous and upcoming acquisitions, an attractive valuation and the position as one of the leading free-to-play powerhouses, Stillfront Group will continue to grow strongly, regain a positive organic growth and generate future value.

Risk

Stillfront operates at different platform providers such as Apple and Microsoft and is therefore sensitive to its policy making. Changes in Apple's IDFA, identifiers for advertisers, caused a tougher environment for data-driven companies like Stillfront on Apple's platform.

Disclaimer

Equity reports are made by Equity Analysts at the Asset Management Group of Föreningen Ekonomerna and are published for informational purposes only and are therefore not intended to be advisory.

The provided financial data is based on reliable sources, however we can not predict the future and therefore the reports carry uncertainty. The information provided should be read with caution and all investments should be done with consideration by the investor. Therefore, any report produced by the Asset Management Group should not be considered investment advice and Föreningen Ekonomerna does not take any liability of the outcome of investment decisions based on this material.

Asset Management Group, A part of the Finance Society of Föreningen Ekonomerna.

Föreningen Ekonomerna, the Business Association at Stockholm University
finance@foreningenekonomerna.se