27 September 2021

Commissioned research: Rovio – Takeaways from Q3 mid-quarter analyst meeting

Marketing material commissioned by Rovio

We attended Rovio's Q3 mid-quarter meeting for sell-side analysts on Friday hosted by IR Minna Eloranta, CEO Alexandre Pelletier-Normand, CFO René Lindell and Head of Strategy Timo Rahkonen. In terms of Q3 performance, we were left with the impression Games revenue should achieve q/q organic growth, which is in line with our estimates. However, the recently acquired Ruby Games has been consolidated from the beginning of September (we have modelled from Q4 onwards), which provides upside for our estimates, especially given the flying start for the recent Forensic Master game launch. Additionally, Rovio announced a formation of a new game studio in Toronto, which will focus on F2P casual mobile games and be led by Julie Beaugrand, who most recently led Gameloft's North American Studios and shares a mutual background with Rovio's key management team members. Furthermore, it seems to us that Rovio's attempt to exploit the recent US court ruling that ordered Apple to allow links to external payment options in apps would be a single sign-on fidelity platform where the most loyal players could acquire virtual currency and deploy it across the game portfolio. Although we find the ruling and the overall pressure on Apple and Google to lower their 30% platform fees as positive for Rovio and mobile gaming companies, we find it likely that lower platform costs would be at least partly passed on to consumers via lower prices or to be directed towards UA, hence limiting the margin upside.

Sequential growth in Q3 Games revenue

According to our impression, Q3 has developed on a positive note with key games (AB2, AB Dream Blast, AB Friends) performing well, which leaves us comfortable with modeling slight sequential organic growth (1% q/q) for Q3 Games revenue. As communicated in conjunction with Q2 results, UA spend in Q3 has been similar to that of Q1, ie in line with our estimates (27% of Games revenue after 32% in Q2). Compared to Q2, Rovio has directed less UA spend to Darkfire Heroes and Small Town Murders, in addition to which it has moved Sugar Blast from "Grow" to "Catalogue" category and consequently minimized UA investments for the game. Two games in soft launch are developing according to Rovio's expectations, with AB Journey (soft launched in January 2021) going into monetisation phase and Supernatural City (soft launched in April 2021) still in retention phase. Following the termination of Hardhead Squad in Q2, the team from Espoo strategy studio has began working on a new project with a more casual genre focus.

New studio to be opened up in Toronto

Last Thursday Rovio announced a formation of a new game studio in Toronto, which will focus on F2P casual mobile games. According to our impression, the expansion to Toronto was very much triggered by the successful recruitment of Julie Beaugrand, who shares a mutual background with key management team members and joins Rovio from Gameloft where she has worked for 11 years in various leadership positions, most recently leading the North American studios (~200 people headcount). The plan for the Toronto studio is to start small with 5-10 employees, with a possibility to scale up to 20 by the end of 2022 if projects go as planned.

Growth boosted by Ruby Games acquisition

Contrary to our prior belief that the recently acquired Ruby Games would be consolidated from Q4 onwards, it has been consolidated from the beginning September, ie it will be a contributor to Rovio's Q3 financials. Ruby Games' most recent game launch Forensic Master (goes by Detective Master 3D on Google Play) has had a flying start, reaching the #1 download ranking in the US after its launch in mid-September. The much-awaited Hunter Assassin 2 (a sequel to Hunter Assassin, the 6th most downloaded game globally in 2020), is currently in soft launch with global launch expected to take place in late-2021 or early-2022. Compared to its predecessor which was a pure hypercasual game with monetisation fully based on ad revenues, Hunter Assassin 2 will also feature in-app purchases, utilise liveops and include more casual game elements that should improve long-term retention. In terms of the integration strategy, Ruby Games will continue to operate more or less as an independent studio, with its player network (increases Rovio's DAU by ~40%) providing cross-promotion opportunities for Rovio. Rovio intends to eventually double Ruby Games' team size, which makes sense in our view given the very low cost of labour in Turkey.

Rovio sees opportunities arising from the recent court ruling on Apple

Rovio did see opportunities arising from the recent US court ruling that ordered Apple to allow apps to feature links to external payment options. Ultimately, this could present game developers a way to avoid the 30% platform fee on in-app purchases that go through the App Store payment system, but in reality developers are unlikely to fully pocket the profit, in our view. We believe that an alternative payment platform would still likely command a ~5% cut, and think that the remaining margin gain would at least partly be passed on to consumers via lower prices to create incentives to transact outside of Apple's platform or to be directed towards UA. It seems to us that Rovio's attempt to exploit the opportunity would be a fidelity program for its users, which would allow it to direct its most loyal fans to a single sign-on alternative platform where players could, for example, acquire virtual currency and deploy it across the company's game portfolio. We believe that this could be something to be introduced by Rovio within a timespan of 6-12 months.

SUMMARY TABLE - KEY FIGURES

EURm	2018	2019	2020	2021E	2022E	2023E
Total revenue	281	289	272	280	318	332
EBITDA (adj)	48	33	65	46	57	60
EBIT (adj)	31	18	47	37	50	54
EBIT (adj) margin	11.1%	6.4%	17.3%	13.2%	15.7%	16.1%
EPS (adj, EUR)	0.31	0.17	0.48	0.43	0.55	0.58
EPS (adj) growth	-7.1%	-44.5%	180.7%	-8.6%	25.5%	6.9%
DPS (ord, EUR)	0.09	0.09	0.12	0.13	0.14	0.15
EV/Sales	0.7	0.9	1.2	1.1	1.0	0.8
EV/EBIT (adj)	5.9	13.5	7.1	8.4	6.2	5.3
P/E (adj)	12.5	26.1	13.3	14.2	11.3	10.6
P/BV	1.9	2.1	2.8	2.4	2.1	1.8
Dividend yield (ord)	2.4%	2.0%	1.9%	2.1%	2.3%	2.4%
FCF Yield bef A&D, lease adj	13.6%	1.8%	12.6%	8.0%	9.4%	9.8%
Net debt	-120	-110	-129	-143	-142	-173
Net debt/EBITDA	-2.5	-3.4	-2.2	-3.2	-2.5	-2.9
ROIC after tax	53.6%	30.0%	79.7%	72.2%	65.6%	54.8%

Source: Company data and Nordea estimates

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