

Next Games

Telecom Equipment and IT
Finland

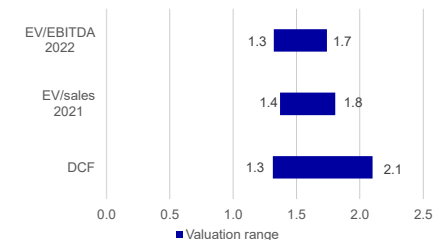
KEY DATA

Stock country	Finland
Bloomberg	NXTGMS FH
Reuters	NXTGMS.HE
Share price (close)	EUR 1.26
Free Float	100%
Market cap. (bn)	EUR 0.04/EUR 0.04
Website	s://www.nextgames.com/
Next report date	

PERFORMANCE



VALUATION APPROACH (EUR/SHARE)



Source: Nordea estimates

ESTIMATE CHANGES

Year	2021E	2022E	2023E
Sales	-6%	-19%	-19%
EBIT (adj)	-1%	-26%	-35%

Source: Nordea estimates

Nordea Markets - Analysts

Felix Henriksson
AnalystSami Sarkamies
Director

Resetting expectations for 2022

Yesterday (2 December), Next Games expectedly announced that it would not reach its 2021 guidance. The main reason for this appears to be the postponement of certain UA investments for Stranger Things: Puzzle Tales closer to next summer, i.e., the Netflix release of season 4 of Stranger Things. The company remains upbeat regarding the game's KPIs, which we find somewhat puzzling given the postponed marketing efforts. After revisiting our estimates, we cut 2022-23E sales and EBIT by ~20-35%, effectively resetting our expectations for the coming years. We lower our fair value range to EUR 1.3-1.9 (1.5-2.1).

Guidance for 2021 withdrawn

Next Games has withdrawn its 2021 guidance for at least EUR 40m in revenue and positive EBITDA. The late launch (25 October) of Stranger Things: Puzzle Tales had already made it difficult to reach the guidance, on top of which the company has decided to postpone certain UA investments for the game until closer to the release of Stranger Things season 4 on Netflix. We believe this will be summer 2022. Additionally, Next Games seems to still be in negotiations for several contracts that were expected to have contributed to revenues during Q4, but which may be postponed until Q1 2022, although the visibility related to this is poor.

2022-23 estimates slashed

We cut our revenue and EBIT estimates significantly for 2022-23, mainly owing to the delayed revenue profile for Stranger Things: Puzzle Tales. We also revisit our estimates for Blade Runner: Rogue, cutting these as the game has yet to be launched globally. We also trim our estimates by 2-3% for The Walking Dead franchise games. The TV show is set to conclude its run on AMC in 2022. We now expect Next Games to achieve revenues of EUR 59m and EBITDA of EUR 4.6m for 2022, with Stranger Things: Puzzle Tales accounting for ~50% of the top line. Even after these heavy estimate cuts, this still represents a clear step towards the 2021E level of EUR 32m and roughly breakeven EBITDA, according to our estimates.

New fair value range of EUR 1.3-1.9 (1.5-2.1)

We derive a fair value range of EUR 1.3-1.9 (1.5-2.1), using an average of three separate valuation methods: EV/EBITDA, EV/sales and DCF. Due to the low profitability and uncertainty regarding our near-term estimates, we apply an average discount of 30% to western peers' multiples for EV/EBITDA and a 50% discount for EV/sales.

SUMMARY TABLE - KEY FIGURES

EURm	2017	2018	2019	2020	2021E	2022E	2023E
Total revenue	32	35	35	27	32	59	65
EBITDA (adj)	-3	-15	-3	-1	0	5	7
EBIT (adj)	-4	-17	-7	-5	-5	0	2
EBIT (adj) margin	-12.6%	-47.6%	-21.5%	-18.4%	-15.6%	-0.7%	2.8%
EPS (adj, EUR)	-0.31	-0.98	-0.36	-0.20	-0.16	-0.02	0.05
EPS (adj) growth	-431.4%	-216.5%	63.7%	43.7%	18.2%	89.0%	366.6%
DPS (ord, EUR)	0.00	0.00	0.00	0.00	0.00	0.00	0.00
EV/Sales	-0.8	0.4	0.7	2.1	1.1	0.5	0.5
EV/EBIT (adj)	7.5	n.m.	n.m.	n.m.	n.m.	n.m.	17.5
P/E (adj)	n.m.	n.m.	n.m.	n.m.	n.m.	n.m.	26.3
P/BV	0.0	0.9	1.1	3.0	2.0	2.1	1.9
Dividend yield (ord)	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
FCF Yield bef A&D, lease	n.m.	-92.9%	-29.4%	-3.7%	-0.8%	5.3%	0.8%
Net debt	-27	-8	-1	-1	-4	-6	-6
Net debt/EBITDA	n.m.	n.m.	n.m.	n.m.	-63.4	-1.2	-0.8
ROIC after tax	-40.7%	-79.9%	-28.2%	-19.9%	-24.3%	-2.8%	12.6%

Source: Company data and Nordea estimates

Detailed estimates and estimate revisions

Financial targets

At its CMD in November 2020, Next Games announced the following mid-term financial targets:

- **Revenue:** To reach EUR 250m
- **EBITDA margin:** >23%
- **EBIT margin:** >18%

Estimate revisions

We lower our estimates mainly due to the delayed revenue profile of Stranger Things: Puzzle Tales. We also revisit our estimates for Blade Runner: Rogue, which have been cut as the game has yet to launch globally. We also trim our estimates for The Walking Dead franchise games. The TV show is set to conclude its run on AMC in 2022.

ESTIMATE REVISIONS (EURm AND EUR)

	New estimates				Old estimates				Difference %			
	H2 2021E	2021E	2022E	2023E	H2 2021E	2021E	2022E	2023E	H2 2021E	2021E	2022E	2023E
EURm												
Sales	19.5	31.8	59.4	65.2	21.5	33.8	73.6	80.9	-9%	-6%	-19%	-19%
EBITDA	0.2	-0.1	4.6	7.5	0.2	-0.1	4.7	8.4	-25%	-60%	-2%	-11%
EBITDA margin	0.8%	-0.4%	7.7%	11.5%	1.0%	-0.3%	6.4%	10.4%	-0.2pp	-0.2pp	1.4pp	1.0pp
Adj. EBITDA	0.2	-0.1	4.6	7.5	0.2	-0.1	4.7	8.4	-25%	-60%	-2%	-11%
Adj. EBITDA margin	0.8%	-0.4%	7.7%	11.5%	1.0%	-0.3%	6.4%	10.4%	-0.2pp	-0.2pp	1.4pp	1.0pp
EBIT	-2.3	-4.9	-0.4	1.8	-2.3	-4.9	-0.3	2.8	-2%	-1%	-26%	-35%
EBIT margin	-12.1%	-15.6%	-0.7%	2.8%	-10.7%	-14.5%	-0.5%	3.4%	-1.4pp	-1.1pp	-0.3pp	-0.6pp
Adj. EBIT	-0.2	-0.8	3.9	6.8	-0.1	-0.8	4.0	7.8	-43%	-7%	-2%	-12%
Adj. EBIT margin	-0.9%	-2.6%	6.6%	10.4%	-0.6%	-2.3%	5.4%	9.6%	-0.3pp	-0.3pp	1.1pp	0.8pp
Net income	-2.3	-4.8	-0.5	1.4	-2.3	-4.8	-0.5	2.2	-2%	-1%	-17%	-35%
EPS	-0.08	-0.16	-0.02	0.05	-0.08	-0.16	-0.02	0.07	-2%	-1%	-17%	-35%

Game KPIs:

Our World:

Gross bookings	4.6	9.2	6.0	3.1	4.6	9.2	6.1	n.a.	0%	0%	-2%	n.a.
DAU	0.05	0.07	0.04	0.02	0.05	0.07	0.04	n.a.	0%	0%	-2%	n.a.
MAU	0.19	0.23	0.12	0.06	0.19	0.23	0.13	n.a.	0%	0%	-2%	n.a.
ARPPDAU (EUR)	0.46	0.46	0.46	0.46	0.46	0.46	0.46	n.a.	0%	0%	0%	n.a.

No Man's Land:

Gross bookings	7.1	14.8	10.1	6.1	7.1	14.8	10.5	n.a.	0%	0%	-3%	n.a.
DAU	0.14	0.15	0.10	0.06	0.14	0.15	0.10	n.a.	0%	0%	-3%	n.a.
MAU	0.41	0.44	0.29	0.17	0.4	0.4	0.3	n.a.	0%	0%	-3%	n.a.
ARPPDAU (EUR)	0.28	0.28	0.28	0.28	0.28	0.28	0.28	n.a.	0%	0%	0%	n.a.

Stranger Things

Gross bookings	6.9	6.9	31.6	25.9	7.8	7.9	35.5	n.a.	-12%	-12%	-11%	n.a.
DAU	0.15	0.11	0.31	0.24	0.19	0.13	0.37	n.a.	-17%	-16%	-15%	n.a.
MAU	0.47	0.33	0.95	0.71	0.56	0.39	1.12	n.a.	-17%	-16%	-15%	n.a.
ARPPDAU (EUR)	0.24	0.23	0.27	0.30	0.23	0.22	0.26	n.a.	5%	3%	5%	n.a.

Blade Runner

Gross bookings	0.9	0.9	11.0	8.4	2.0	2.0	13.9	n.a.	-54%	-53%	-21%	n.a.
DAU	0.03	0.02	0.15	0.11	0.07	0.05	0.11	n.a.	-60%	-59%	32%	n.a.
MAU	0.08	0.06	0.46	0.35	0.20	0.14	0.34	n.a.	-60%	-59%	32%	n.a.
ARPPDAU (EUR)	0.15	0.13	0.20	0.20	0.15	0.13	0.34	n.a.	0%	0%	-41%	n.a.

Source: Nordea estimates

NEXT GAMES: NORDEA VS COMPANY-COLLECTED CONSENSUS (EURm AND EUR)

EURm	Nordea estimates				Consensus estimates				Difference %			
	H2 2021E	2021E	2022E	2023E	H2 2021E	2021E	2022E	2023E	H2 2021E	2021E	2022E	2023E
Sales	19.5	31.8	59.4	65.2	19.5	31.8	55.2	62.5	0%	0%	8%	4%
EBITDA	0.2	-0.1	4.6	7.5	0.6	0.5	3.9	6.6	-73%	-127%	18%	13%
EBITDA margin	0.8%	-0.4%	7.7%	11.5%	3.0%	1.7%	7.0%	10.5%	-2.2pp	-2.1pp	0.7pp	0.9pp
EBIT	-2.3	-4.9	-0.4	1.8	-1.8	-4.1	-0.7	1.5	-32%	-21%	36%	24%
EBIT margin	-12.1%	-15.6%	-0.7%	2.8%	-9.1%	-12.8%	-1.2%	2.3%	-3.0pp	-2.8pp	0.5pp	0.4pp
PTP	-2.3	-4.9	-0.4	1.8	-1.9	-4.2	-0.8	1.3	-25%	-17%	44%	38%
EPS	-0.08	-0.16	-0.02	0.05	-0.06	-0.13	-0.03	0.04	-49%	-24%	38%	23%

Source: Nordea estimates and company-collected consensus

REPORTED QUARTERLY NUMBERS AND ESTIMATES (EURm AND %)

	Q1 19	Q2 19	Q3 19	Q4 19	Q1 20	Q2 20	Q3 20	Q4 20	Q1 21	Q2 21	Q3 21E	Q4 21E
Revenue	9.8	9.4	7.8	7.7	7.3	7.1	6.1	6.7	6.2	6.1	6.9	12.5
- growth y/y	105.3%	65.2%	-41.9%	-32.4%	-25.7%	-24.4%	-21.9%	-12.6%	-15.1%	-14.1%	13.7%	87.0%
Gross profit	5.6	5.7	4.3	4.1	3.8	3.8	3.4	3.4	3.2	3.1	3.7	6.8
Gross margin	56.8%	60.4%	55.5%	53.3%	51.4%	52.8%	54.9%	50.0%	51.6%	50.8%	54.0%	54.0%
Operating Expenses	7.4	7.4	6.2	6.2	5.4	4.8	4.6	4.6	4.5	4.4	4.9	7.9
R&D	1.6	1.6	1.6	1.6	1.7	1.7	1.7	1.7	1.6	1.6	1.6	1.7
Sales & Marketing	4.9	4.9	3.9	3.9	2.8	2.2	2.3	2.3	2.2	2.1	2.5	5.4
Admin	0.8	0.8	0.7	0.7	1.0	1.0	0.7	0.7	0.8	0.8	0.8	0.8
EBITDA	-1.4	-0.1	-1.1	-0.8	-0.2	0.5	0.2	0.0	0.3	0.0	0.1	0.1
- margin	-14.3%	-1.1%	-14.4%	-10.9%	-2.7%	7.0%	3.3%	0.0%	4.8%	0.0%	0.9%	0.8%
Adj. EBITDA	-1.4	-0.1	-1.1	-0.8	-0.2	0.5	0.2	0.0	0.3	0.0	0.1	0.1
- margin	-14.3%	-1.1%	-14.4%	-10.9%	-2.7%	7.0%	3.3%	0.0%	4.8%	0.0%	0.9%	0.8%
EBIT	-2.4	-1.1	-2.1	-1.8	-1.2	-0.5	-0.8	-1.0	-1.0	-1.1	-1.2	-1.2
- margin	-24.4%	-11.7%	-27.0%	-23.8%	-15.8%	-6.3%	-13.1%	-14.9%	-16.1%	-18.0%	-17.2%	-9.2%
Adj. EBIT (Nordea)	-2.4	-1.1	-2.1	-1.8	-1.2	-0.5	-0.8	-1.0	-1.0	-1.1	-1.2	-1.2
- margin	-24.4%	-11.7%	-27.0%	-23.8%	-15.8%	-6.3%	-13.1%	-14.9%	-16.1%	-18.0%	-17.2%	-9.2%
Adj. EBIT (comparable)	-1.3	-0.5	-1.2	-1.0	-0.3	0.4	0.0	-0.2	0.0	-0.3	-0.1	-0.1
- margin	-13.4%	-5.3%	-15.3%	-12.5%	-4.1%	5.6%	0.0%	-3.0%	0.0%	-4.9%	-1.5%	-0.6%
Net financials	-0.1	-0.1	-0.1	0.1	-0.1	-0.1	-0.2	-0.2	0.0	0.0	0.0	0.0
PTP	-2.5	-1.3	-2.2	-1.8	-1.3	-0.6	-1.1	-1.3	-1.0	-1.1	-1.2	-1.2
Net profit	-2.6	-1.4	-2.3	-1.9	-1.3	-0.6	-1.0	-1.2	-1.0	-1.1	-1.2	-1.2
Adj. net profit	-2.6	-1.4	-2.3	-1.9	-1.3	-0.6	-1.0	-1.2	-1.0	-1.1	-1.2	-1.2
EPS (diluted)	-0.14	-0.07	-0.12	-0.08	-0.04	-0.02	-0.04	-0.04	-0.03	-0.04	-0.04	-0.04

Source: Company data and Nordea estimates

REPORTED ANNUAL NUMBERS AND ESTIMATES (EURm AND %)

	2016	2017	2018	2019	2020	2021E	2022E	2023E	2024E
Revenue	31.1	32.5	35.2	34.7	27.2	31.8	59.4	65.2	70.1
- growth y/y	220.5%	4.4%	8.6%	-1.5%	-21.6%	16.8%	87.1%	9.8%	7.5%
Gross profit	16.9	19.3	21.3	19.7	14.3	16.8	32.1	36.5	39.3
Gross margin	54.2%	59.5%	60.4%	56.7%	52.5%	52.9%	54.0%	56.0%	56.0%
Operating Expenses	20.2	24.4	38.3	27.1	19.3	21.8	32.5	34.7	36.3
R&D	6.4	7.0	7.5	6.6	6.6	6.4	7.6	8.2	8.5
Sales & Marketing	12.3	12.7	26.8	17.6	9.5	12.2	21.6	23.2	24.4
Admin	1.5	4.7	4.0	3.0	3.2	3.1	3.3	3.3	3.4
EBITDA	-1.7	-4.4	-14.8	-3.5	-0.7	-0.1	4.6	7.5	9.0
- margin	-5.5%	-13.6%	-41.8%	-10.0%	-2.6%	-0.4%	7.7%	11.5%	12.8%
Adj. EBITDA	-1.5	-3.4	-14.5	-3.5	-0.7	-0.1	4.6	7.5	9.0
- margin	-4.9%	-10.4%	-41.2%	-10.0%	-2.6%	-0.4%	7.7%	11.5%	12.8%
EBIT	-2.2	-5.1	-16.9	-7.4	-4.6	-4.9	-0.4	1.8	2.9
- margin	-7.0%	-15.6%	-48.0%	-21.4%	-17.0%	-15.6%	-0.7%	2.8%	4.2%
Adj. EBIT (Nordea)	-2.0	-4.0	-16.7	-7.4	-4.6	-4.9	-0.4	1.8	2.9
- margin	-6.4%	-12.4%	-47.4%	-21.4%	-17.0%	-15.6%	-0.7%	2.8%	4.2%
Adj. EBIT (comparable)	-1.7	-4.4	-13.8	-4.0	-1.2	-0.8	3.9	6.8	8.3
- margin	-5.5%	-13.6%	-39.1%	-11.4%	-4.4%	-2.6%	6.6%	10.4%	11.9%
Net financials	-0.1	-0.5	0.1	-0.2	-0.6	0.0	0.0	0.0	0.0
PTP	-2.4	-6.0	-16.9	-7.8	-5.4	-4.9	-0.4	1.8	2.9
Net profit	0.1	-6.1	-18.0	-8.3	-5.2	-4.8	-0.5	1.4	2.4
Adj. net profit	0.3	-5.1	-17.8	-8.3	-5.2	-4.8	-0.5	1.4	2.4
EPS (diluted)	0.01	-0.37	-0.99	-0.36	-0.19	-0.16	-0.02	0.05	0.08
DPS	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00

Source: Company data and Nordea estimates

ESTIMATED KPIs FOR NEXT GAMES' GAME PORTFOLIO

Company	Q1 19	Q2 19	Q3 19	Q4 19	Q1 20	Q2 20	Q3 20	Q4 20	Q1 21	Q2 21	Q3 21E	Q4 21E
Gross Bookings, EURm	9.5	9.0	7.9	8.2	7.3	6.9	6.1	6.6	6.1	5.8	6.9	12.5
DAU	0.44	0.3	0.3	0.3	0.3	0.2	0.2	0.2	0.2	0.2	0.2	0.5
MAU	1.67	1.2	1.0	1.3	0.8	0.7	0.7	0.7	0.7	0.6	0.8	1.5
DAU/MAU	26%	30%	29%	24%	31%	32%	30%	31%	30%	31%	32%	33%
ARPDau, USD	0.27	0.31	0.30	0.33	0.36	0.37	0.45	0.49	0.39	0.38	0.34	0.31
ARPDau, EUR	0.24	0.28	0.27	0.29	0.32	0.33	0.38	0.42	0.32	0.32	0.31	0.27
TWD: NML	Q1 19	Q2 19	Q3 19	Q4 19	Q1 20	Q2 20	Q3 20	Q4 20	Q1 21	Q2 21	Q3 21E	Q4 21E
Gross Bookings, EURm	4.5	3.8	3.4	4.2	3.9	4.0	3.4	4.1	3.9	3.8	3.7	3.5
DAU	0.23	0.19	0.16	0.18	0.16	0.16	0.15	0.14	0.16	0.16	0.14	0.13
MAU	0.67	0.54	0.48	0.65	0.48	0.46	0.46	0.43	0.48	0.46	0.42	0.40
DAU/MAU	34%	35%	34%	28%	34%	34%	32%	33%	34%	34%	34%	34%
ARPDau, EUR	0.22	0.22	0.21	0.25	0.27	0.28	0.34	0.31	0.27	0.28	0.28	0.28
TWD: OW	Q1 19	Q2 19	Q3 19	Q4 19	Q1 20	Q2 20	Q3 20	Q4 20	Q1 21	Q2 21	Q3 21E	Q4 21E
Gross Bookings, EURm	5.0	5.2	4.5	3.9	3.4	2.9	2.7	2.5	2.4	2.2	2.3	2.2
DAU	0.21	0.15	0.13	0.11	0.08	0.07	0.07	0.06	0.08	0.07	0.06	0.05
MAU	0.98	0.60	0.53	0.59	0.31	0.25	0.25	0.23	0.31	0.25	0.19	0.18
DAU/MAU	21%	26%	24%	19%	27%	29%	27%	27%	27%	29%	29%	29%
ARPDau, EUR	0.26	0.37	0.36	0.38	0.45	0.46	0.43	0.43	0.45	0.46	0.46	0.46
Stranger Things: Puzzle Tales	Q1 19	Q2 19	Q3 19	Q4 19	Q1 20	Q2 20	Q3 20	Q4 20	Q1 21	Q2 21	Q3 21E	Q4 21E
Gross Bookings, EURm										0.1	0.9	6.0
DAU										0.02	0.04	0.27
MAU										0.05	0.13	0.81
DAU/MAU										33%	33%	33%
ARPDau, EUR										0.21	0.23	0.24
Blade Runner: Rogue	Q1 19	Q2 19	Q3 19	Q4 19	Q1 20	Q2 20	Q3 20	Q4 20	Q1 21	Q2 21	Q3 21E	Q4 21E
Gross Bookings, EURm										0.0	0.1	0.9
DAU										0.00	0.01	0.05
MAU										0.01	0.02	0.14
DAU/MAU										33%	33%	33%
ARPDau, EUR										0.10	0.10	0.20

Source: Company data and Nordea estimates

ESTIMATED KPIs FOR NEXT GAMES' GAME PORTFOLIO, ANNUAL

Company	2018	2019	2020	2021E	2022E	2023E
Gross Bookings, EURm	35.9	34.5	26.9	31.4	59.4	65.2
DAU	0.4	0.3	0.2	0.3	0.6	0.7
MAU	1.7	1.3	0.7	0.9	1.9	2.2
DAU/MAU	26%	27%	31%	32%	33%	33%
ARPDau, USD	0.25	0.30	0.42	0.36	0.33	0.32
ARPDau, EUR	0.22	0.27	0.36	0.30	0.26	0.36
TWD: NML	2018	2019	2020	2021E	2022E	2023E
Gross Bookings, EURm	21.4	15.9	15.4	14.8	10.1	6.1
DAU	0.28	0.19	0.15	0.15	0.10	0.06
MAU	0.85	0.58	0.46	0.44	0.29	0.17
DAU/MAU	33%	33%	33%	34%	34%	34%
ARPDau, EUR	0.22	0.23	0.30	0.28	0.28	0.28
TWD: OW	2018	2019	2020	2021E	2022E	2023E
Gross Bookings, EURm	14.0	18.5	11.5	9.2	6.0	3.1
DAU	0.30	0.15	0.07	0.07	0.04	0.02
MAU	1.43	0.68	0.26	0.23	0.12	0.06
DAU/MAU	21%	22%	27%	28%	29%	29%
ARPDau, EUR	0.26	0.34	0.44	0.46	0.46	0.46
Stranger Things: Puzzle Tales	2018	2019	2020	2021E	2022E	2023E
Gross Bookings, EURm				6.9	31.6	25.9
DAU				0.11	0.31	0.24
MAU				0.33	0.95	0.71
DAU/MAU				33%	33%	33%
ARPDau, EUR				0.23	0.27	0.30
Blade Runner: Rogue	2018	2019	2020	2021E	2022E	2023E
Gross Bookings, EURm				0.9	11.0	8.4
DAU				0.02	0.15	0.11
MAU				0.06	0.46	0.35
DAU/MAU				33%	33%	33%
ARPDau, EUR				0.13	0.20	0.20

Source: Company data and Nordea estimates

Risk factors

Below, we list the main risk factors that we find relevant for Next Games. The purpose of this is not to provide a comprehensive list of all of the risks that the company may face, but instead to highlight those that we find most relevant. In our view, the main risks relate to the company's low cash balance and its ability to publish new games in the extremely competitive mobile gaming market.

Short-term risk factors

Low cash balance could impose the need for further capital injection

Next Games' cash balance was EUR 4.3m at the end of 2020, after the EUR 8m capital injection in Q4 2019. It received a further EUR 4m in proceeds following a share issuance in March 2021 and boasted a cash balance of EUR 4.9m as of mid-2021. In October 2021, the company agreed on a EUR 3m loan with its largest shareholder Jari Ovaskainen, which could be drawn starting from 31 October 2021. However, if the company cannot maintain cash flow neutrality during 2022, we see an increasing risk of it needing another capital injection in 2022. The availability of capital is dependent on the outlook and the quality of the company's game development pipeline. Our visibility for the pipeline is limited given that gaming companies typically do not publish detailed KPIs about unfinished projects.

Change in access to IDFA

Apple announced changes to its new iOS in 2020. One of these changes related to new privacy settings, where Apple users see a new privacy screen when installing an app. This privacy screen asks permission for the app to track the user across other apps and websites. This question will determine whether the app will have access to the device identifier for advertisers (IDFA).

This identifier is heavily used by the ad networks that the mobile gaming companies employ in their user acquisition. It is unclear how this will affect mobile gaming companies' user acquisition methodologies. Thus, this puts the efficiency of mobile gaming companies' user acquisition at risk as well.

Faster-than-expected decline of The Walking Dead titles

Currently, Next Games is dependent on the success of its two The Walking Dead (TWD) titles. We expect the revenues generated by the TWD games will decrease gradually in the coming years. However, it is possible they will decline at a more rapid pace if, for example, TWD IP loses its fan base or Next Games is unable to create new and interesting content for the games' players. The Walking Dead series concludes in 2022 on AMC.

Inability to launch new games according to the expected schedule

Announced game launches are subject to uncertainty. Those game projects may be cancelled if the KPIs do not meet targeted levels. This, in turn, could result in writedowns of capitalised R&D expenses or a weaker-than-expected sales development.

Outflow of key specialists

A weakened financial situation might lead to the departure of some key specialists or executives. This risk is elevated by the apparent chronic shortage of game developers in Finland, which is making the recruitment of top-tier developers difficult.

Long-term risk factors

Ability to attract and retain top talent

Given the global and highly competitive nature of the mobile gaming market, success depends heavily on attracting and retaining top international specialists and executives. Prolonged organisational or financial headwinds could raise the risk of a brain drain and complicate recruitment.

Ability to develop games with lucrative feature sets

According to a study by GameRefinery, 50% of a game's success is explained by its feature set. Mobile gaming is still a nascent industry, which means that a winning feature set is a constantly moving target, making success extremely hard to replicate in subsequent games.

Ability to accumulate and retain an adequate cash position

Gaming companies require solid cash balances to withstand occasional hardships, to retain strategic leeway in game development and to market their games. Failure to retain a credible cash balance will, in the long term, increase the risk of the departure of all relevant stakeholders in the company.

Ability to acquire interesting third-party intellectual property

The company might be unable to acquire intellectual property of the calibre of The Walking Dead and Stranger Things, due to increased competition. An inability to acquire the desired IP would harm the company's strategy and effectiveness.

Regulation

The mobile gaming industry is facing increasing regulation, especially in China. The trend towards tighter regulation of mobile game monetisation could hamper the financial performance of Next Games in the long run.

Reported numbers and forecasts

INCOME STATEMENT

EURm	2013	2014	2015	2016	2017	2018	2019	2020	2021E	2022E	2023E
Total revenue	0	0	10	31	32	35	35	27	32	59	65
Revenue growth	n.a.	n.a.	n.m.	220.5%	4.4%	8.6%	-1.5%	-21.6%	16.8%	87.1%	9.8%
of which organic	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
of which FX	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
EBITDA	0	-4	-6	-2	-4	-15	-3	-1	0	5	7
Depreciation and impairments PPE	0	0	0	0	-1	-1	-2	-2	-3	-3	-3
of which leased assets	0	0	0	0	0	0	-1	-1	-1	-1	-1
EBITA	0	-4	-7	-2	-5	-16	-5	-3	-3	2	5
Amortisation and impairments	0	0	0	0	0	-1	-2	-2	-2	-3	-3
EBIT	0	-4	-7	-2	-5	-17	-7	-5	-5	0	2
of which associates	0	0	0	0	0	0	0	0	0	0	0
Associates excluded from EBIT	0	0	0	0	0	0	0	0	0	0	0
Net financials	0	0	0	0	-1	0	0	-1	0	0	0
of which lease interest	0	0	0	0	0	0	0	0	0	0	0
Changes in value, net	0	0	0	0	0	0	0	0	0	0	0
Pre-tax profit	0	-4	-7	-2	-6	-17	-8	-5	-5	0	2
Reported taxes	0	0	0	2	0	-1	-1	0	0	0	0
Net profit from continued operations	0	-4	-7	0	-6	-18	-8	-5	-5	-1	1
Discontinued operations	0	0	0	0	0	0	0	0	0	0	0
Minority interests	0	0	0	0	0	0	0	0	0	0	0
Net profit to equity	0	-4	-7	0	-6	-18	-8	-5	-5	-1	1
EPS, EUR	n.a.	-1.57	-2.00	0.01	-0.37	-0.99	-0.36	-0.19	-0.16	-0.02	0.05
DPS, EUR	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
of which ordinary	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
of which extraordinary	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00

Profit margin in percent

EBITDA	n.m.	n.m.	-66.2%	-5.5%	-13.6%	-41.8%	-10.0%	-2.3%	0.2%	8.2%	11.5%
EBITA	n.m.	n.m.	-70.2%	-7.0%	-15.6%	-44.5%	-14.8%	-10.0%	-8.0%	3.8%	7.5%
EBIT	n.m.	n.m.	-70.2%	-7.0%	-15.6%	-48.0%	-21.4%	-17.0%	-15.6%	-0.7%	2.8%

Adjusted earnings

EBITDA (adj)	0	-4	-6	-3	-3	-15	-3	-1	0	5	7
EBITA (adj)	0	-4	-7	-3	-4	-16	-5	-3	-3	2	5
EBIT (adj)	0	-4	-7	-3	-4	-17	-7	-5	-5	0	2
EPS (adj, EUR)	n.a.	-1.57	-2.00	-0.06	-0.31	-0.98	-0.36	-0.20	-0.16	-0.02	0.05

Adjusted profit margins in percent

EBITDA (adj)	n.m.	n.m.	-66.2%	-8.4%	-10.6%	-41.4%	-10.0%	-3.7%	0.2%	8.2%	11.5%
EBITA (adj)	n.m.	n.m.	-70.2%	-9.9%	-12.6%	-44.0%	-14.8%	-11.5%	-8.0%	3.8%	7.5%
EBIT (adj)	n.m.	n.m.	-70.2%	-9.9%	-12.6%	-47.6%	-21.5%	-18.4%	-15.6%	-0.7%	2.8%

Performance metrics

CAGR last 5 years											
Net revenue	n.a.	n.a.	n.a.	n.a.	n.a.	n.m.	513.7%	22.9%	0.4%	12.9%	13.1%
EBITDA	n.m.	n.m.	n.m.	n.m.	n.m.	n.m.	n.m.	n.m.	n.m.	n.m.	n.m.
EBIT	n.a.	n.a.	n.a.	n.a.	n.a.	n.m.	n.m.	n.m.	n.m.	n.m.	n.m.
EPS	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.m.	n.m.	n.m.	n.m.	n.m.
DPS	n.m.	n.m.	n.m.	n.m.	n.m.	n.m.	n.m.	n.m.	n.m.	n.m.	n.m.
Average last 5 years											
Average EBIT margin	n.a.	n.a.	n.a.	n.a.	-25.2%	-32.2%	-26.8%	-22.5%	-24.2%	-18.2%	-7.2%
Average EBITDA margin	n.a.	n.a.	n.a.	n.a.	-23.0%	-28.8%	-21.5%	-15.5%	-14.4%	-7.4%	3.8%

VALUATION RATIOS - ADJUSTED EARNINGS

EURm	2013	2014	2015	2016	2017	2018	2019	2020	2021E	2022E	2023E
P/E (adj)	n.a.	n.a.	n.a.	n.a.	n.m.	n.m.	n.m.	n.m.	n.m.	n.m.	26.3
EV/EBITDA (adj)	n.a.	n.a.	n.a.	n.a.	7.9	n.m.	n.m.	n.m.	536.5	6.5	4.2
EV/EBITA (adj)	n.a.	n.a.	n.a.	n.a.	6.7	n.m.	n.m.	n.m.	n.m.	14.0	6.5
EV/EBIT (adj)	n.a.	n.a.	n.a.	n.a.	7.5	n.m.	n.m.	n.m.	n.m.	n.m.	17.5

VALUATION RATIOS - REPORTED EARNINGS

EURm	2013	2014	2015	2016	2017	2018	2019	2020	2021E	2022E	2023E
P/E	n.a.	n.a.	n.a.	n.a.	n.m.	n.m.	n.m.	n.m.	n.m.	n.m.	26.3
EV/Sales	n.a.	n.a.	n.a.	n.a.	-0.84	0.35	0.70	2.14	1.07	0.54	0.48
EV/EBITDA	n.a.	n.a.	n.a.	n.a.	6.9	n.m.	n.m.	n.m.	536.5	6.5	4.2
EV/EBITA	n.a.	n.a.	n.a.	n.a.	5.9	n.m.	n.m.	n.m.	n.m.	14.0	6.5
EV/EBIT	n.a.	n.a.	n.a.	n.a.	5.9	n.m.	n.m.	n.m.	n.m.	n.m.	17.5
Dividend yield (ord.)	n.a.	n.a.	n.a.	n.a.	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
FCF yield	n.a.	n.a.	n.a.	n.a.	n.m.	-92.9%	-25.3%	-2.0%	2.3%	8.5%	4.0%
FCF Yield bef A&D, lease adj	n.a.	n.a.	n.a.	n.a.	n.m.	-92.9%	-29.4%	-3.7%	-0.8%	5.3%	0.8%
Payout ratio	n.a.	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%

Source: Company data and Nordea estimates

BALANCE SHEET

EURm	2013	2014	2015	2016	2017	2018	2019	2020	2021E	2022E	2023E
Intangible assets	0	0	1	3	10	14	14	15	15	17	19
of which R&D	0	0	1	1	7	10	11	12	12	13	15
of which other intangibles	0	0	0	0	0	0	0	0	0	0	0
of which goodwill	0	0	0	2	3	3	3	3	3	3	3
Tangible assets	0	0	0	1	0	7	5	4	3	3	4
of which leased assets	0	0	0	0	0	0	4	4	3	3	3
Shares associates	0	1	0	1	1	0	0	0	0	0	0
Interest bearing assets	0	0	0	0	1	0	1	0	0	0	0
Deferred tax assets	0	0	0	2	3	2	1	2	0	0	0
Other non-IB non-current assets	0	0	0	0	0	0	0	0	0	0	0
Other non-current assets	0	0	0	0	0	0	0	1	0	0	0
Total non-current assets	0	1	1	7	14	23	22	22	18	20	22
Inventory	0	0	0	0	0	0	0	0	0	0	0
Accounts receivable	0	1	3	6	5	6	5	4	5	9	9
Short-term leased assets	0	0	0	0	0	0	0	0	1	1	1
Other current assets	0	0	0	0	0	0	0	0	0	0	0
Cash and bank	0	2	5	4	26	7	8	4	8	10	10
Total current assets	0	2	8	10	31	14	13	8	14	20	21
Assets held for sale	0	0	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
Total assets	0	3	9	17	46	36	35	30	32	40	43
Shareholders equity	0	2	5	7	39	23	23	19	19	18	20
Of which preferred stocks	0	0	0	0	0	0	0	0	0	0	0
Of which equity part of hybrid debt	0	0	0	0	0	0	0	0	0	0	0
Minority interest	0	0	0	0	0	0	0	0	0	0	0
Total Equity	0	2	5	7	39	23	23	19	19	18	20
Deferred tax	0	0	0	0	0	0	0	0	0	0	0
Long term interest bearing debt	0	0	0	0	0	0	1	1	1	1	1
Pension provisions	0	0	0	0	0	0	0	0	0	0	0
Other long-term provisions	0	0	0	0	0	0	0	0	0	0	0
Other long-term liabilities	0	0	0	0	0	0	0	0	0	0	0
Non-current lease debt	0	0	0	0	0	0	3	2	2	2	2
Convertible debt	0	0	0	0	0	0	0	0	0	0	0
Shareholder debt	0	0	0	0	0	0	0	0	0	0	0
Hybrid debt	0	0	0	0	0	0	0	0	0	0	0
Total non-current liabilities	0	0	0	1	1	5	4	3	2	2	2
Short-term provisions	0	0	0	0	0	0	0	0	0	0	0
Accounts payable	0	1	4	9	6	9	4	7	9	18	19
Current lease debt	0	0	0	0	0	0	1	1	1	1	1
Other current liabilities	0	0	0	0	0	0	0	0	0	0	0
Short term interest bearing debt	0	0	0	0	0	0	3	0	0	0	0
Total current liabilities	0	1	4	9	6	9	8	8	11	19	21
Liabilities for assets held for sale	0	0	0	0	0	0	0	0	0	0	0
Total liabilities and equity	0	3	9	17	46	36	35	30	32	40	43
Balance sheet and debt metrics											
Net debt	0	-2	-5	-4	-27	-8	-1	-1	-4	-6	-6
of which lease debt	0	0	0	0	0	0	4	3	3	3	3
Working capital	0	0	0	-3	-1	-3	1	-3	-5	-9	-10
Invested capital	0	1	1	5	14	20	23	19	13	11	12
Capital employed	0	2	5	7	39	23	31	23	23	22	23
ROE	n.m.	n.m.	n.m.	1.5%	-26.2%	-58.0%	-36.3%	-24.7%	-25.4%	-2.9%	7.6%
ROIC	n.m.	n.m.	n.m.	-96.5%	-40.7%	-79.9%	-28.2%	-19.9%	-24.3%	-2.8%	12.6%
ROCE	n.m.	n.m.	n.m.	-52.0%	-19.3%	-51.8%	-27.9%	-19.3%	-21.6%	-1.9%	7.9%
Net debt/EBITDA	n.m.	n.m.	n.m.	n.m.	n.m.	n.m.	n.m.	n.m.	-63.4	-1.2	-0.8
Interest coverage	n.m.	n.m.	n.m.	n.m.	n.m.	n.m.	n.m.	n.m.	n.m.	n.m.	n.m.
Equity ratio	-66.3%	72.3%	55.3%	43.5%	86.1%	62.7%	65.9%	65.3%	59.2%	46.0%	46.0%
Net gearing	95.6%	-70.5%	-94.9%	-52.9%	-69.1%	-33.7%	-3.3%	-2.6%	-21.3%	-33.0%	-32.2%

Source: Company data and Nordea estimates

CASH FLOW STATEMENT

EURm	2013	2014	2015	2016	2017	2018	2019	2020	2021E	2022E	2023E
EBITDA (adj) for associates	0	-4	-6	-2	-4	-15	-3	0	0	5	7
Paid taxes	0	0	0	0	0	0	0	0	0	0	0
Net financials	0	0	0	0	0	0	0	0	0	0	0
Change in provisions	0	0	0	0	0	0	0	0	0	0	0
Change in other LT non-IB	0	0	0	-2	0	5	-4	-1	3	0	0
Cash flow to/from associates	0	0	0	0	0	0	0	0	0	0	0
Dividends paid to minorities	0	0	0	0	0	0	0	0	0	0	0
Other adj to reconcile to cash flow	0	4	6	3	1	-3	4	3	0	0	0
Funds from operations (FFO)	0	0	0	0	-3	-13	-4	2	3	5	7
Change in NWC	0	0	0	0	-1	1	0	0	2	4	1
Cash flow from operations (CFO)	0	0	0	0	-4	-12	-4	2	5	9	8
Capital expenditure	0	0	0	-1	-2	-7	-3	-3	-4	-6	-6
Free cash flow before A&D	0	0	0	-1	-7	-19	-6	-1	1	3	2
Proceeds from sale of assets	0	0	0	0	0	0	0	0	0	0	0
Acquisitions	0	0	0	0	0	0	0	0	0	0	0
Free cash flow	0	0	0	-1	-7	-19	-6	-1	1	3	2
Free cash flow bef A&D, lease adj	0	0	0	-1	-7	-19	-7	-2	0	2	0
Dividends paid	0	0	0	0	0	0	0	0	0	0	0
Equity issues / buybacks	0	0	0	0	30	0	8	0	4	0	0
Net change in debt	0	0	0	0	0	0	-2	0	0	0	0
Other financing adjustments	0	0	0	0	0	0	0	0	-2	-1	-1
Other non-cash adjustments	0	2	3	0	-1	0	1	-2	0	0	0
Change in cash	0	2	3	-1	23	-19	0	-3	4	2	0
Cash flow metrics											
Capex/D&A	n.m.	0.0%	n.m.	n.m.	n.m.	n.m.	68.9%	74.1%	77.1%	n.m.	n.m.
Capex/Sales	n.m.	0.0%	0.0%	1.9%	7.7%	19.1%	7.9%	10.9%	12.2%	10.2%	9.9%
Key information											
Share price year end (/current)	n.a.	n.a.	n.a.	n.a.	9	1	1	2	1	1	1
Market cap.	n.a.	n.a.	n.a.	n.a.	0	20	25	59	38	38	38
Enterprise value	n.a.	n.a.	n.a.	n.a.	-27	12	24	58	34	32	32
Diluted no. of shares, year-end (m)	0.0	0.0	0.0	0.0	0.0	19.0	28.0	28.0	30.0	30.0	30.0

Source: Company data and Nordea estimates

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