08 August 2022

Commissioned research: Rovio – Expectations ahead of Q2 results

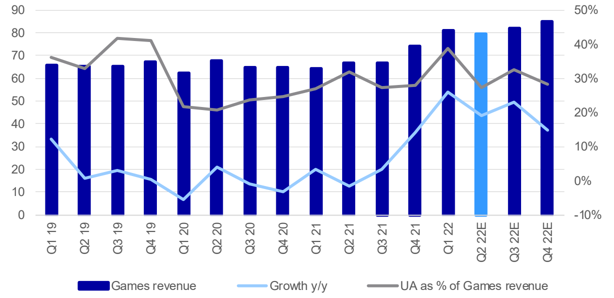
Marketing material commissioned by Rovio

Rovio will publish its Q2 report on 11 August at 9:00 EET. For Q2, we expect Games revenue to decrease by 4% q/q (+19% y/y), driven by the lack of releases from Ruby Games and sequentially lower UA spend for AB Journey. Based on Rovio's mid-quarter meeting and data.ai, we believe the older AB games have performed broadly in line with our expectations. UA guidance for Q2 stands at 25-30% of Games revenues, which compares to 38% in Q1 and our Q2 estimate of 27%. Our top-line estimate is in line with pre-Q2 Infront consensus, while our adjusted EBIT estimate is 1% below. Despite the mobile gaming market currently facing headwinds (US market -11% y/y growth in Q2, according to Sensor Tower) from post-pandemic reopening, rising inflation and IDFA deprecation, we expect Rovio to repeat its 2022 outlook for strong top-line growth, supported by the launch of AB Journey (20 January 2022) and the acquisition of Ruby Games (12 August 2021), as well as for declining adjusted EBIT. We forecast 18% top-line growth (7% organic) and an adjusted EBIT decline of 5% for 2022E, which puts us 1% ahead of consensus on sales, but 4% below on EBIT for 2022E. UA guidance for Q3 (Nordea estimate: 33% of Games revenue) will receive focus as a q/q uptick could be an indication of the global launch of Hunter Assassin 2 (which we model for Q3) or an improvement in key KPIs for AB Journey. We find no reason to changes our estimates ahead of the Q2 report.

Rovio: Case overview

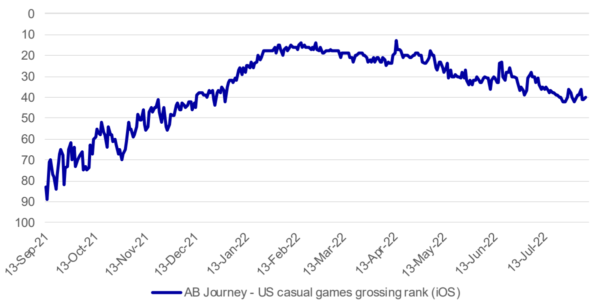
Rovo’s performance has exceeded our expectations for three consecutive quarters and the recent CMD also suggested the company’s focus and execution have improved during the tenure of CEO Alex Pelletier-Normand. The company has sharpened its focus back to the casual game genre (slingshot, puzzle), with hypercasual (Ruby Games) and mid-casual providing new opportunities with limited risk. In our view, Rovio’s focus on wide-appeal casual mobile games coupled with the strong Angry Birds IP (~80% of Games revenue) and Beacon technology platform has made Rovio a relative winner in the midst of app tracking transparency headwinds for the market. In addition to the stable, high margin revenue generated by the older Angry Birds (AB) games, Rovio has been able to boost growth recently with the launch of AB Journey and the acquisition of Ruby Games. Moreover, the soft launch pipeline currently consists of promising Hunter Assassin 2 and Rovio’s first game based on the Moomin IP. We believe that organic growth will be complemented with further M&A, enabled by total firepower of some EUR 220m (EUR ~170m of cash and 9% ownership of own shares). The company aims to grow both revenues and EBITDA faster than the western mobile gaming market growth (Newzoo: 8% CAGR 2021-24E), which admittedly points to limited operational leverage, but highlights the company’s focus on absolute profit and cash flow generation through games with larger scale.

QUARTERLY GAMES REVENUE (EURm) AND UA AS % OF GAMES REVENUE



Source: company data and Nordea estimates

AB JOURNEY: US CASUAL GAMES GROSSING RANK (iOS)



Source: data.ai

ROVIO: OUR ESTIMATES VS. CONSENSUS (EURm AND EUR)

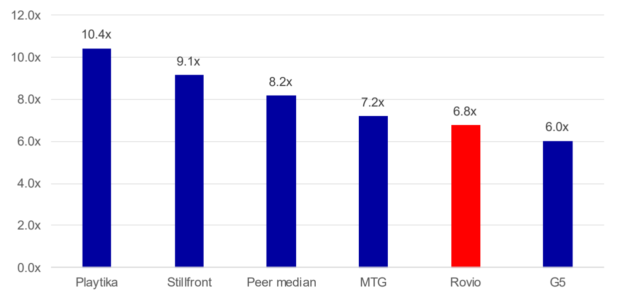
	Nordea estimates				Consensus estimates				Difference			
EURm	**Q2 22E**	**2022E**	**2023E**	**2024E**	**Q2 22E**	**2022E**	**2023E**	**2024E**	**Q2 22E**	**2022E**	**2023E**	**2024E**
Sales	**81.6**	**337.9**	**357.7**	**365.3**	**81.6**	**333.7**	**344.0**	**350.1**	**0%**	**1%**	**4%**	**4%**
- growth y/y	18.5%	18.1%	5.9%	2.1%	18.5%	16.6%	3.1%	1.8%	0.0pp	1.5pp	2.8pp	0.3pp
Adj. EBITDA	**14.6**	**55.1**	**63.1**	**67.1**	**14.8**	**55.4**	**61.3**	**62.6**	**-1%**	**-1%**	**3%**	**7%**
- margin	17.9%	16.3%	17.6%	18.4%	18.1%	16.6%	17.8%	17.9%	-0.2pp	-0.3pp	-0.2pp	0.5pp
Adj. EBIT	**11.3**	**41.5**	**50.9**	**56.3**	**11.5**	**43.0**	**49.1**	**51.1**	**-1%**	**-4%**	**4%**	**10%**
- margin	13.9%	12.3%	14.2%	15.4%	14.1%	12.9%	14.3%	14.6%	-0.2pp	-0.6pp	0.0pp	0.8pp
EBIT	**11.3**	**39.0**	**50.9**	**56.3**	**11.5**	**40.5**	**49.1**	**51.1**	**-1%**	**-4%**	**4%**	**10%**
- margin	13.9%	11.5%	14.2%	15.4%	14.1%	12.1%	14.3%	14.6%	-0.2pp	-0.6pp	0.0pp	0.8pp
PTP	11.3	39.2	50.9	56.3	11.4	40.0	49.8	51.8	-1%	-2%	2%	9%
Net profit	8.8	29.8	39.5	43.7	10.2	30.4	38.4	40.0	-13%	-2%	3%	9%
EPS	**0.12**	**0.42**	**0.55**	**0.60**	**0.14**	**0.41**	**0.51**	**0.53**	**-12%**	**1%**	**7%**	**13%**
DPS		**0.13**	**0.14**	**0.15**		**0.13**	**0.14**	**0.15**		**2%**	**2%**	**2%**

Source: Nordea estimates and Infront

Valuation

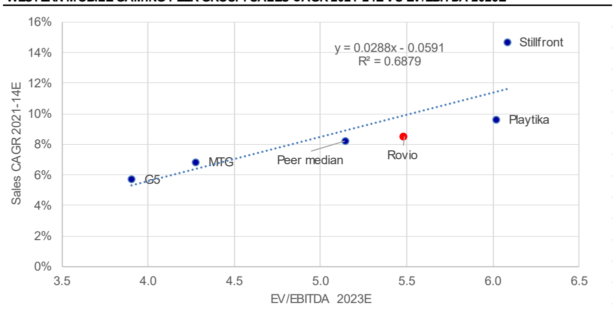
Rovio trades a EV/EBIT of 9.4x for 2022E. For 2023E, the share trades at 6.8x EV/EBIT as UA investments normalise, according to our estimates. The discount to western mobile gaming peers on 2023E EV/EBIT amounts to ~15%, which can be compared to an average discount of ~35% since the 2017 IPO. The discount to peers has been narrowed by peer group multiples declining considerably. NTM EV/EBIT of our peer group has contracted from the October 2020 peak of 25x to current level of 10x. Moreover, we argue that Rovio's growth profile has improved from the past and the company has demonstrated solid resiliency amid mobile gaming market headwinds. Our fair value range for Rovio is EUR 6.6-8.6 per share.

WESTERN MOBILE GAMING PEER GROUP: EV/EBIT 2023E



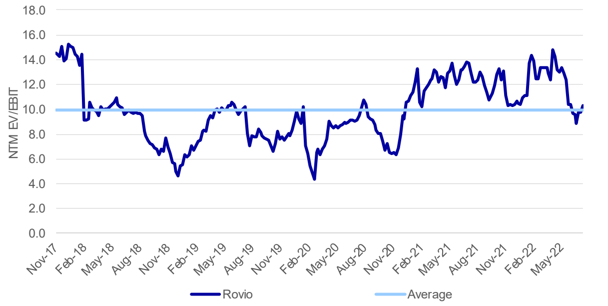
Source: Refinitiv and Nordea estimates

WESTERN MOBILE GAMING PEER GROUP: SALES CAGR 2021-24E VS EV/EBITDA 2023E



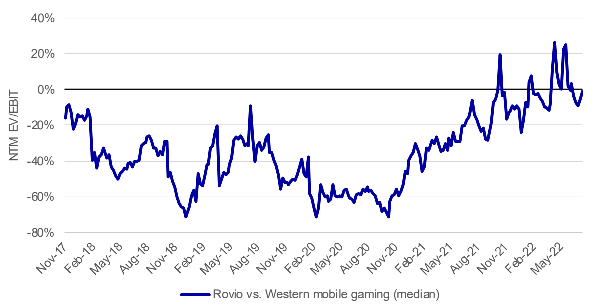
Source: Refinitiv and Nordea estimates

NTM EV/EBIT: ROVIO



Source: Refinitiv

NTM EV/EBIT: ROVIO VS WESTERN MOBILE GAMING PEERS



Source: Refinitiv

SUMMARY TABLE - KEY FIGURES

EURm	2019	2020	2021	2022E	2023E	2024E
Total revenue	289	272	286	338	358	365
EBITDA (adj)	33	65	57	55	63	67
EBIT (adj)	18	47	44	41	51	56
EBIT (adj) margin	6.4%	17.3%	15.3%	12.3%	14.2%	15.4%
EPS (adj, EUR)	0.17	0.48	0.49	0.44	0.54	0.59
EPS (adj) growth	-44.5%	180.7%	4.0%	-11.0%	22.2%	10.5%
DPS (ord, EUR)	0.09	0.12	0.12	0.13	0.14	0.15
EV/Sales	0.9	1.2	1.2	1.2	1.0	0.9
EV/EBIT (adj)	13.5	7.1	8.2	9.6	7.2	5.9
P/E (adj)	26.1	13.3	13.3	15.7	12.8	11.6
P/BV	2.1	2.8	2.4	2.3	2.0	1.8
Dividend yield (ord)	2.0%	1.9%	1.8%	1.9%	2.0%	2.2%
FCF Yield bef A&D, lease adj	1.8%	12.6%	7.7%	5.1%	9.1%	9.5%
Net debt	-110	-129	-126	-108	-141	-175
Net debt/EBITDA	-3.4	-2.2	-2.5	-2.1	-2.2	-2.6
ROIC after tax	30.0%	79.7%	55.9%	32.7%	36.2%	40.7%

Source: Company data and Nordea estimates

Completion date: 08 Aug 2022, 12:44 CET

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