REDEYE

# Update

Equity Research

26 February 2020

# Gaming Innovation Group

Sector: Betting/Entertainment

## All-in on B2B

Redeye cuts the valuation of GiG as a consequence of its B2C divestment. While the Q4'19 report otherwise was uneventful, the strategic move is significant. On a positive note, financial gearing is coming down and the remaining B2B business is developing well. We view the selling price as clearly low, however, and the future potential is reduced due to this effective halving of GiG's business. On balance, we still see substantial upside in the stock from currently depressed levels.

### B2C divestment

GiG has agreed to sell the B2C operations to Betsson, for a total estimated consideration of EUR 50m. With this divestment, the company will be able to repay the bond that was maturing at the end of March. In conjunction, the company also made a write-down of EUR 41.2m, where the main part derives from the acquisition of Betit Group in 2016. Including the total consideration, the Price/Sales multiple was 0.63x, which is below the multiple of 0.9x that we included in the sum-of-the-parts valuation in our previous update.

### B2B focus

With the B2C divestment, GiG can focus entirely on the B2B segment. We believe that the growth prospects are strong for the company´s omnichannel solution, which is confirmed by the partnerships with Hard Rock and SkyCity. The Media segment, on the other hand, has less growth potential, but will continue to deliver strong cash flows, we believe. Moreover, Q1'20 started off well, but we see a potential risk that the many changes within the organization can have some short-term consequences on the group's performance.

### Improved financial position

GiG´s financial position has improved substantially due to the divestment of the B2C segment. With the front up payment of EUR 31m, the company can repay the bond that matures at the end of March and should lower the NIBD/EBITDA below the critical 3.0.

### Hidden value

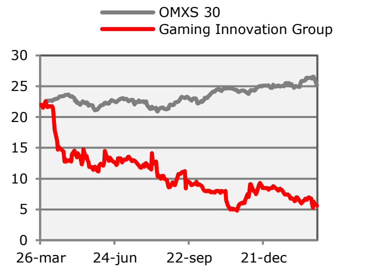
Despite the divestment of the B2C segment at a lower price than our sum-of-the-parts valuation and some short-term increase in the risk, we still see hidden values. Accordingly, we regard the stock's current level as unjustified and risk/reward as attractive, with a potential upside of around 70% to our base case valuation of SEK 9 (13).

| KEY FINANCIALS (EUR) | 2018 | 2019 | 2020E | 2021E | 2022E | 2023E |
|---|---|---|---|---|---|---|
| Net sales | 151 | 123 | 74 | 63 | 64 | 67 |
| EBITDA | 16 | 14 | 16 | 22 | 23 | 23 |
| EBIT | -18 | -56 | 1 | 14 | 15 | 15 |
| EPS (adj.) | -0.3 | -0.7 | 0.0 | 0.1 | 0.1 | 0.1 |
| EV/Sales | 13.0 | 6.7 | 1.0 | 1.0 | 0.8 | 0.6 |
| EV/EBITDA | 121.9 | 57.9 | 4.7 | 2.9 | 2.4 | 1.9 |
| EV/EBIT | n.m. | n.m. | 56.7 | 4.8 | 3.6 | 2.8 |
| P/E | n.m. | n.m. | n.m. | 4.8 | 3.9 | 3.6 |

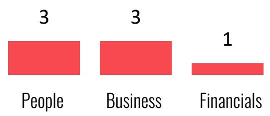
### FAIR VALUE RANGE

| BEAR | BASE | BULL |
|---|---|---|
| SEK 4 | SEK 9 | SEK 19 |

### GIGSEK.ST VERSUS OMXS30




### REDEYE RATING




### KEY STATS

| | |
|---|---|
| Ticker | GIG / GIGSEK |
| Market | Oslo / Nasdaq |
| Share Price (NOK/SEK) | 5.08 / 5.29 |
| Market Cap (MSEK) | 480 |
| Net Debt 20E (MSEK) | 280 |
| Free Float | 50 % |
| Avg. daily volume ('000) | 180 |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# Q4: Divesting the B2C segment

**GiG: Expected vs. Actual**

| (EURm) | Q4'18 | Q4'19 | Q4'19E | Diff |
|---|---|---|---|---|
| Revenues | 39.9 | 29.4 | 31.1 | -6% |
| Gross Profit | 32.1 | 25.0 | 24.2 | 3% |
| EBITDA | 5.0 | 4.8 | 3.3 | 45% |
| EBIT | -14.1 | -42.5 | -3.6 | n.m. |
| EPS (EUR) | -0.19 | -0.53 | -0.06 | n.m. |
| | | | | |
| *Sales growth Y/Y* | *0%* | *-26%* | *-22%* | |
| *Sales growth Q/Q* | *7%* | *-3%* | *3%* | |
| *EBITDA margin* | *13%* | *16%* | *11%* | |
| *EBIT margin* | *-35%* | *-145%* | *-11%* | |

*Source: GiG, Redeye Research*

In the fourth quarter, GiG´s revenues came in 6% below our estimates. We believe the lower revenues mainly relates to lower marketing spend for the B2C segment. The Gross Profit came in 3% above our estimates due to the larger part of the revenues coming from the B2B segment. As a result, the EBITDA margin came in at a strong 16% (estimated 11%). The EBIT and EPS, on the other hand, were impacted by the major impairment of intangible assets (related to the Betit acquisition) in relation to the divested B2C segment.

### Business areas

**GiG: Expected vs. Actual - B2B & B2C**

| (EURm) | Q4'18 | Q4'19 | Q4'19E | Diff |
|---|---|---|---|---|
| B2B revenues (incl. Internal rev) | 16.4 | 12.2 | 12.1 | 1% |
| *B2B inter-segment revenues* | *2.3* | *1.9* | *2.0* | |
| B2B EBITDA | 4.4 | 0.9 | 1.0 | -12% |
| B2B EBITDA margin | 27% | 7% | 8% | |
| | | | | |
| B2C revenues | 25.8 | 19.0 | 21.0 | -10% |
| B2C EBITDA | 0.7 | 4.1 | 2.3 | 77% |
| B2C EBITDA margin | 3% | 22% | 11% | |

*Source: GiG, Redeye Research*

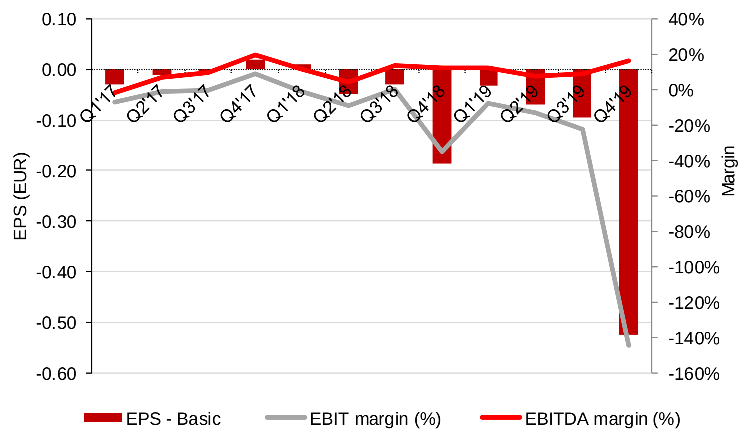
The revenues for the B2B segment were in line with our estimates (EUR 12.2m, estimated EUR 12.1m). On a sub-segment level, Platform Services delivered a strong revenue while the profit margin was lower than our estimates. For the important media segment, the FTD numbers continue to decline due to changed google ranking. The ranking has, however, improved from November.

The revenues for the B2C segment came in -10% below our estimates. We believe this mainly relates to lower marketing spend than estimated. That the company lowered the marketing makes sense as it is divesting the B2C segment.

### EPS and Profit margins

While the EBITDA margin was stronger than expected due to the lower marketing spend. The EBIT margin and the EPS were heavily impacted by the large impairment of intangible assets, as illustrated in the graph below.

GiG: Revenue, Gross Profit margin and EBITDA margin (Q1'17-Q4'19)

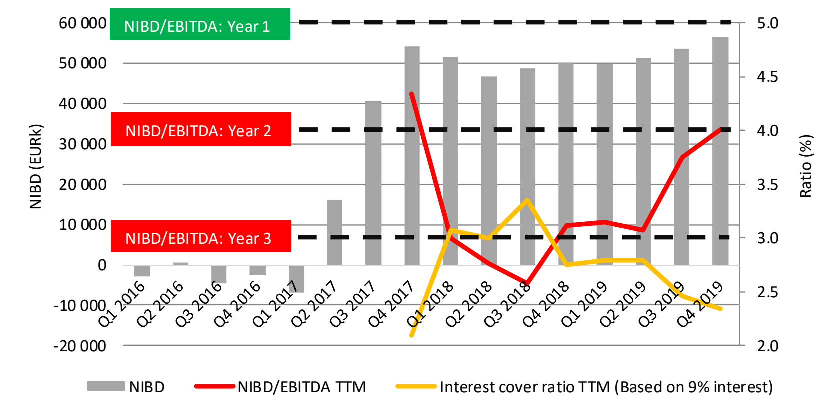



*Source: GiG, Redeye Research*

### Financial position

GiG´s financial position still looks challenging as the net debt remains high, and the interest coverage ratio has decreased further. However, with the divestment of the B2C segment will decrease the net debt by around EUR 30m. Meanwhile, increased B2B revenues should keep the group´s EBITDA at a healthy level, despite the loss of the EBITDA contribution by the B2C segment. As a result, the group will likely reach the NIBD/EBITDA ratio of <3.

**GiG: Bond covenants. NIBD/EBITDA & Interest cover ratio (Q1 2016-Q4 2019)**




*Source: GiG, Redeye Research*

### Q4 in conclusion

The underlying operational development in the fourth quarter was more or less in-line with our expectations. The main exceptions were less marketing spend and an overall performance by the Media segment below our expectations. The challenging finical position has improved thanks to the divestment of the B2C segment. The price for the B2C segment was, however, well below what we had estimated. As a result, this heavily impacts the valuation. On the positive side, the Q1'20 started off well, and the company can increase its focus on the B2B segment.

# Forecast

Our forecasts are affected by many different factors, none of which are guaranteed, especially from quarter to quarter. Nevertheless, some of them are very likely to occur over time.

With the divestment of the B2C segment, the company will become a pure B2B company. The B2B operations offer higher scalability as the gross profit margin is much stronger, which is reflected in the table below. The company is reorganizing its operations, and we expect that the Other OPEX will decline during 2020.

**GiG: Financial forecasts summary**

| (EURm) | 2018 | Q1'19 | Q2'19 | Q3'19 | Q4'19 | 2019 | Q1'20E | Q2'20E | Q3'20E | Q4'20E | 2020E | 2021E | 2022E |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| **Revenues** | **151.4** | **32.4** | **31.0** | **30.2** | **29.4** | **123.0** | **30.3** | **14.0** | **14.3** | **14.9** | **73.5** | **62.9** | **64.4** |
| Gross Profit | 124.0 | 26.0 | 24.4 | 23.6 | 25.0 | 98.9 | 23.9 | 13.7 | 14.1 | 14.6 | 66.3 | 61.8 | 63.4 |
| Marketing | -47.2 | -8.6 | -8.9 | -7.1 | -6.5 | -31.1 | -7.3 | -1.1 | -1.1 | -1.2 | -10.7 | -5.0 | -5.3 |
| Other OPEX | -58.8 | -13.3 | -13.0 | -13.7 | -13.7 | -53.7 | -12.7 | -9.0 | -8.8 | -8.5 | -39.0 | -34.1 | -35.6 |
| **EBITDA** | **16.1** | **4.1** | **2.5** | **2.7** | **4.8** | **14.1** | **3.6** | **3.4** | **4.0** | **4.7** | **15.7** | **22.2** | **22.6** |
| D&A | -33.7 | -6.6 | -6.5 | -9.5 | -47.3 | -69.9 | -4.2 | -3.8 | -3.4 | -3.0 | -14.4 | -8.7 | -7.2 |
| **EBIT** | **-17.6** | **-2.5** | **-4.0** | **-6.7** | **-42.5** | **-55.7** | **-0.6** | **-0.4** | **0.6** | **1.7** | **1.3** | **13.5** | **15.4** |
| Net Income | -22.6 | -2.9 | -6.2 | -8.5 | -47.3 | -64.9 | -2.5 | -1.5 | -0.3 | 0.9 | -3.4 | 9.8 | 12.0 |
| **EPS, EUR** | **-0.25** | **-0.03** | **-0.07** | **-0.09** | **-0.53** | **-0.72** | **-0.03** | **-0.02** | **0.00** | **0.01** | **-0.04** | **0.11** | **0.13** |
| | | | | | | | | | | | | | |
| Growth Y/Y (%) | 26% | -13% | -16% | -19% | -26% | -19% | -7% | -55% | -53% | -49% | -40% | -14% | 2% |
| Growth Q/Q (%) | | -19% | -4% | -2% | -3% | | 3% | -54% | 3% | 4% | | | |
| Gross Profit (%) | 82% | 80% | 79% | 78% | 85% | 80% | 79% | 98% | 98% | 98% | 90% | 98% | 99% |
| EBITDA (%) | 11% | 13% | 8% | 9% | 16% | 11% | 12% | 24% | 28% | 32% | 21% | 35% | 35% |
| EBIT (%) | -12% | -8% | -13% | -22% | -145% | -45% | -2% | -3% | 4% | 12% | 2% | 22% | 24% |

*Source: GiG, Redeye Research*

### Growth potential

- Underlying market: Underlying growth in existing markets and the main verticals is estimated at a CAGR of about 5% for 2018-23, according to H2GC.
- New partnerships: New land-based partners like Hard Rock and SkyCity will be a key long-term growth driver for GiG. On top of that, we expect new online partners to add additional growth. Increasing demand for the Media products should also increase the number of partners and revenue within the Media Business.
- New markets: Entering new markets will be important for growth as the European market mature.
- Products improvements: With fewer new projects within additional verticals, we expect that the company will focus on improving the products within the core business and increase modular sales. This will be important to stay competitive.
- Acquisitions: The current financial position makes it difficult for GiG to take advantage of M&A opportunities. However, we do not rule out that smaller acquisitions will be added to the portfolio.

### Cost allocation

- Cost of sales: With the new business structure with purely B2B operations, we will see a much lower cost of sales going forward.
- Marketing: Minor marketing expenses will primarily be maintained within the Media segment.
- Other operating expenses: We expect the company to slim the OpEx during 2020 for a more efficient use of resources.

## Business areas

We expect that the B2B segment will continue to be a profitable segment with strong gross profit and improved EBITDA margin. The B2B business will improve further during the time Betsson pays the premium platform fee. The company, however, highlights that it has under-invested in the Media service and will increase these investments.

GiG: Financial forecasts - B2B vs. B2C

| (EURm) | 2018 | Q1'19 | Q2'19 | Q3'19 | Q4'19 | 2019 | Q1'20E | Q2'20E | Q3'20E | Q4'20E | 2020E | 2021E | 2022E |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| B2B revenues (incl. inter. rev.) | 51.5 | 12.4 | 11.3 | 10.0 | 10.3 | 44.0 | 10.6 | 14.0 | 14.3 | 14.9 | 53.9 | 62.9 | 64.4 |
| *B2B inter-segment revenues* | 11.1 | 1.9 | 1.8 | 1.8 | 1.9 | 7.4 | 1.9 | 0.0 | 0.0 | 0.0 | 1.9 | 0.0 | 0.0 |
| B2B EBITDA | 16.8 | 2.9 | 2.1 | 0.3 | 0.9 | 6.2 | 1.2 | 3.4 | 4.0 | 4.7 | 13.3 | 22.3 | 22.6 |
| B2B EBITDA margin | 27% | 20% | 16% | 3% | 7% | 12% | 9% | 24% | 28% | 32% | 24% | 35% | 35% |
| | | | | | | | | | | | | | |
| B2C revenues | 99.8 | 20.2 | 19.6 | 20.2 | 19.0 | 79.0 | 19.6 | 0.0 | 0.0 | 0.0 | 19.6 | 0.0 | 0.0 |
| B2C EBITDA | -0.6 | 1.1 | 0.4 | 2.4 | 4.1 | 8.0 | 2.5 | 0.0 | 0.0 | 0.0 | 2.5 | 0.0 | 0.0 |
| B2C EBITDA margin | -1% | 5% | 2% | 12% | 22% | 10% | 13% | 0% | 0% | 0% | 13% | 0% | 0% |

*Source: GiG, Redeye Research*

## Sub-segments

For the Media Services, the company communicated that Google updates impacted the rankings in both Q3'19 and into the beginning of Q4'19, which lowered the revenues. The rankings have since then improved, and the company saw an 8% improvement in the revenues in January. The company also sees considerable growth opportunities for the paid media segment, and the company has communicated that it will increase the investments into the Media services. As a result, we expect that the revenues will start to improve from the low level in the fourth quarter but with decreasing profit margins during 2020.

For the Platform Services, the company is shifting its focus towards a fixed fee model and will increase its focus on large long-term partnerships. As a result, we expect that the company will phase out the white label deals. The Betsson deal will also boost the revenues from the Q2'20 and the following 24 months. Hence, we estimate that the company with the boosted revenue will have a strong margin. Moreover, we believe that the increased focus on the B2B with major partnerships, such as Hard Rock and Sky City, will drive underlying growth going forward.

For the Sports Betting Services, we have lowered our growth expectation and believe that the company will focus on reaching break-even for the sub-segment. Therefore, we don´t include any positive EBITDA margins beyond break-even and don´t add any value to the sub-segment.

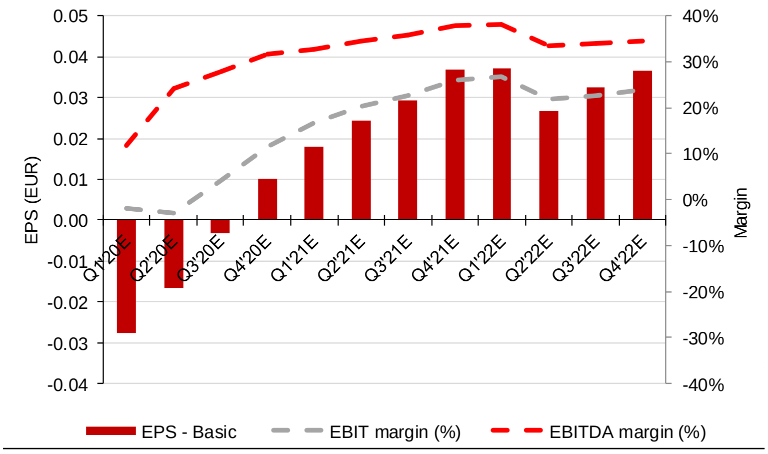
GiG: Financial forecasts - B2B segments

| (EURm) | 2018 | Q1'19 | Q2'19 | Q3'19 | Q4'19 | 2019 | Q1'20E | Q2'20E | Q3'20E | Q4'20E | 2020E | 2021E | 2022E |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| **Media Services** | | | | | | | | | | | | | |
| Revenue | 34.0 | 9.1 | 8.6 | 8.0 | 7.5 | 33.2 | 7.7 | 7.8 | 7.9 | 8.1 | 31.4 | 33.0 | 34.7 |
| EBITDA | 18.3 | 5.2 | 4.7 | 4.2 | 4.0 | 18.1 | 3.9 | 3.9 | 3.9 | 3.9 | 15.6 | 16.1 | 17.3 |
| EBITDA margin (%) | 54% | 57% | 55% | 53% | 53% | 55% | 51% | 50% | 49% | 48% | 50% | 49% | 50% |
| | | | | | | | | | | | | | |
| **Platform Services** | | | | | | | | | | | | | |
| Revenue | 27.1 | 4.9 | 4.2 | 3.6 | 4.5 | 17.2 | 4.6 | 5.9 | 6.1 | 6.5 | 23.1 | 28.1 | 27.7 |
| EBITDA | 5.7 | -0.5 | -1.1 | -2.1 | -1.4 | -5.1 | -1.3 | 0.3 | 0.7 | 1.0 | 0.7 | 6.2 | 5.4 |
| EBITDA margin (%) | 21% | -10% | -26% | -58% | -31% | -30% | -29% | 5% | 11% | 16% | 3% | 22% | 19% |
| | | | | | | | | | | | | | |
| **Sports Betting Services** | | | | | | | | | | | | | |
| Revenue | 1.5 | 0.3 | 0.3 | 0.2 | 0.2 | 1.0 | 0.2 | 0.3 | 0.3 | 0.4 | 1.2 | 1.7 | 2.1 |
| EBITDA | -7.1 | -1.8 | -1.5 | -1.8 | -1.7 | -6.8 | -1.4 | -0.9 | -0.5 | -0.2 | -3.0 | 0.0 | 0.0 |
| EBITDA margin (%) | -476% | -600% | -500% | -900% | -850% | -680% | -620% | -300% | -160% | -50% | -241% | -2% | 0% |

*Source: GiG, Redeye Research*

## EPS and Profit margins

GiG: EBITDA margin, EBIT margin and EPS (Q1'20E-Q4'22E)




*Source: GiG, Redeye Research*

We expect to see a lower EBITDA margin in the Q1'20 as we expect that the company will increase the marketing spend within the B2C segment to meet requirements from Betsson. In Q2'20, we expect to see a rapid improvement of the EBITDA margin as the B2C operation, with its low profit margin, is divested to Betsson. Meanwhile, Betsson will start to pay the platform fee premium, which should have a direct positive effect on both the group´s top- and bottom-line. During 2020 and 2021, we estimate that the cost cuts, platform scalability, and top-line growth will drive the improvement in the EBITDA margin. The EBIT margin and EPS will also be positively impacted by lower amortization and lower financial expenses.

## Forecast changes

With the divestment of the B2C segment, the group structure changes. For the B2B segment, the underlying operations are intact, with the platform fee premium as the only addition. The premium adds around EUR 3.8m in revenue and EBITDA in 2020E as well as EUR 5m in 2021E. On a group level, both Revenues and EBITDA are significantly lowered, without the B2C segment.

**GiG: B2B segment**

| Estimate revisions (EURm) | 2020E New | 2020E Old | 2020E % chg | 2021E New | 2021E Old | 2021E % chg |
|---|---|---|---|---|---|---|
| Revenue | 56 | 52 | *8%* | 63 | 59 | *7%* |
| EBITDA | 13.3 | 12.3 | *8%* | 22.2 | 18.2 | *22%* |
| EBITDA margin | 24% | 24% | | 35% | 31% | |

*Source: Redeye Research*

**GiG: Group**

| Estimate revisions (EURm) | 2020E New | 2020E Old | 2020E % chg | 2021E New | 2021E Old | 2021E % chg |
|---|---|---|---|---|---|---|
| Revenue | 74 | 131 | *-44%* | 63 | 145 | *-57%* |
| EBITDA | 15.7 | 22.1 | *-29%* | 22.2 | 28.7 | *-23%* |
| EBITDA margin | 21% | 17% | | 35% | 20% | |

*Source: Redeye Research*

# Investment Thesis

- Attractive SOTP valuation
- Platform and omnichannel
- Potential turnaround

**Attractive SOTP valuation**

Based on our sum-of-the-parts valuation, GiG is undervalued. On our 2020 estimates, GiG Core and Media offer significant upside to the fair value. We assign no value to GiG Sports as its revenue is limited and it's loss-making.

**Platform and omnichannel**

The GiG Core business area will be one of the company's main long-term growth drivers going forward, in combination with a solid media business. Improving its platform will add value to the whole business. Moreover, GiG´s partnerships and land-based operator niche could become a major market for it. While the vast majority of gambling is still conducted offline, many land-based operators would like to participate in the industry's digitalization. We believe that GiG has the potential to achieve decent market share here. Its partnership with SkyCity in New Zealand and Hard Rock Casino in several US states underscores this potential and has positioned GiG well in the huge US market.

**Potential turnaround**

We believe GiG´s main issue in recent years has been a lack of focus. The company has tried to realize its vision of becoming a diversified global player active in all gambling verticals. However, we see several signs that the company is moving to increase focus on its core business to achieve profitable growth.

- It has divested the B2C segment
- It has made changes in both the board and management. We believe this signals the start of a new direction and vision for GiG.
- We see room to slim other operating expenses and use resources more efficiently.
    - Sports Betting Service is reducing its burn rate and targeting breakeven in H1'20.
    - The company has decided to halt the investments in GiG Games.
    - Third-party data also indicates a trend towards fewer new employees.

# Counter-Thesis – Bear Points

**Negative momentum**

GiG's momentum is negative, with declining B2B revenues. Although the company has the prerequisites to turn this around, it often takes longer than estimated.

**Organizational changes**

The company has made several management and board changes, as well as the divestment of the B2B segment. Moreover, we anticipate more changes further down in the organization, given the relatively large head-count. This could reduce its efficiency for a while, hurting operations and increasing negative momentum further.

**Regulatory uncertainty**

GiG focuses on regulated markets as these offer better scope for attractive B2B partners and are less risky. Even so, regulated markets are not risk-free. Moreover, we also expect that the gaming tax expenses will pressure profit margins in the next coming years.

# Valuation

Redeye wants to understand and value the companies we cover better than anyone else. So we're refining our unique approach to assessing investment cases. Our new rating model evaluates companies across as many as 100 criteria. It is ultimately designed to generate more appropriate estimations of WACC than traditional financial theory. In Redeye's view, a realistic hands-on approach that combines fundamentals with common sense is called for in analyzing small growth stocks. These lack the market visibility and trading liquidity of large-cap names. Our new model is a bold and important move in Redeye's pursuit of leadership in our sectors.

We derive our fair value from a fundamental DCF framework with three scenarios - Base case (most likely), Bear case (pessimistic), and Bull case (optimistic). A central part of the valuation is the weighted average cost of capital (WACC). Based on Redeye Rating and the debt ratio, we estimate a WACC of 12.6%, which is used in all three scenarios.

### DCF-valuation – Base Case

Summary:

- Sales CAGR of about -3% between 2019-2028
- An average EBIT margin of approximately 19% during the same period
- Terminal growth of 2% and terminal EBIT margin of 19%
- Our base case assumes that GiG will focus on the GiG core and GiG Media. We believe the increased focus will bring GiG back to growth. The growth together with more efficient use of resources as well as lower amortizations will improve the profit margins. Moreover, with the divestment of the B2C segment, the financial position is improved.

After several years of rapid expansion, GiG lost its growth pace in 2018, and the revenues started to decline in 2019. Adding to this is a challenging financial situation with larger debts and increased interest rates. However, GiG has started to take action with changes in the organization and increased focus on the B2B business. The divestment of the B2C segment will improve the challenging financial position, which will lower the financial risk.

We believe the platform segment has the best potential for long-term growth and profit improvement. Nevertheless, we believe that the Media segment will continue to contribute with stable cash flows.

Our Base case yields a fair value of SEK 9 (13) per share.

| **Gaming Innovation Group** | | | | | |
|---|---|---|---|---|---|
| **Assumptions:** | **2019-28** | **2019-22** | **2022-28** | **DCF-value** | |
| CAGR Sales | -3.1% | -19.4% | 5.8% | WACC | 12.6% |
| EBIT-margin (avg.) | 19.3% | 15.7% | 21.1% | PV of FCF | 93 |
| ROE (avg.) | 20% | 20% | 20% | PV of Terminal Value | 45 |
| | | | | | |
| **Terminal** | | | | EV | 138 |
| Growth of FCF | 2% | | | Net cash | -57 |
| EBIT margin | 19.0% | | | Dividend correction | 0 |
| EV/S Exit multiple | 1.6x | | | Associated companies | 0 |
| EV/EBIT Exit multi | 8x | | | Minorities | -1 |
| | | | | | |
| | | | | **DCF-value (EUR)** | **80** |
| | | | | **Fair value per share (SEK)** | **9** |
| | | | | Todays price | 5 |
| | | | | **Potential/Risk** | **79%** |

*Source: Redeye Research*

## SOTP Valuation

Due to GiG´s negative revenue momentum, financial situation, reorganization, and complex company structure. We believe a SOTP valuation is a good complement to the DCF valuation.

**SOTP valuation**

| Segment | (EURm) | Sales 2021 | EBITDA 2021 | Sales Multiple | EBITDA Multiple | Value | Disc. Value |
|---|---|---|---|---|---|---|---|
| B2B - GiG Core (Platform) | | 28.1 | | 2.0x | | 56 | 45 |
| B2B - GiG Media (Affiliation) | | | 16.1 | | 5.0x | 80 | 64 |
| B2B - Sports Betting | | 1.7 | | | | 0 | 0 |
| | | | | | | | |
| **EV** | **109** | | | | | | |
| Net debt | -29 | | | | | | |
| **SOTP value** | **81** | | | | | | |
| **Per share (SEK)** | **9** | | | | | | |

Source: Redeye Research

Based on our estimates for 2020 and modest multiples, the SOTP valuation confirms the DCF valuation.

The GiG core platform services are currently incurring losses, which we believe merits a discounted sales multiple compared to peers. The segment will make profits during 2021, but much of this will be driven by the platform fee premium.

The GiG Media services are profitable and but in a slight revenue decline during 2020. We expect the company to increase the investments in Media. We estimate with an improvement of the growth but a decline in the profit margins. We believe the overall outlook for GiG Media services is more or less the same as for the peers.

We have added zero value for GiG Sports Betting Services as we don´t expect it to generate any profits in the near future.

We valued the divested B2C segment to EUR 77m in the previous SOTP valuation, while it was divested for a total consideration of EUR 50m, of which a part is included in the platform fee.

## Peer table

In the peer table, we have added peers relevant to GiG´s different business areas. The comparison for 2020E becomes a bit distorted due to the divestment of the B2C segment. Therefore, the most relevant year is 2021E, which indicates that GiG is valued far below peers.

**Peer valuation**

| | | EV/Sales | | | EV/EBITDA | | | SALES CAGR | EBIT CAGR | EBIT margin | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| **Company** | **EV (MSEK)** | **2019** | **2020E** | **2021E** | **2019** | **2020E** | **2021E** | **19-21E** | **19-21E** | **2019** | **2020E** | **2021E** |
| **Operators** | | | | | | | | | | | | |
| Star Group | 117 525 | 4.8x | 4.4x | 4.1x | 13.3x | 12.5x | 11.5x | 9% | 16% | 19% | 22% | 22% |
| Flutter Ent. | 94 997 | 3.5x | 3.4x | 3.1x | 18.7x | 17.5x | 15.4x | 6% | 5% | 13% | 12% | 13% |
| GVC | 86 546 | 1.9x | 1.9x | 1.8x | 9.5x | 8.4x | 7.4x | 3% | 13% | 15% | 16% | 18% |
| William Hill | 27 903 | 1.4x | 1.4x | 1.3x | 8.3x | 8.0x | 7.0x | 2% | 17% | 9% | 10% | 12% |
| Rank | 15 796 | 1.9x | 1.6x | 1.4x | 15.8x | 7.0x | 6.4x | 16% | 80% | 6% | 13% | 14% |
| Kindred | 14 110 | 1.3x | 1.1x | 1.0x | 9.3x | 6.9x | 7.0x | 13% | 22% | 8% | 10% | 9% |
| Betsson | 8 552 | 1.7x | 1.5x | 1.4x | 7.0x | 6.4x | 6.5x | 10% | 3% | 17% | 17% | 15% |
| 888 | 4 817 | 0.9x | 0.9x | 0.8x | 5.7x | 5.5x | 5.1x | 6% | 8% | 10% | 10% | 11% |
| Leovegas | 3 574 | 1.1x | 0.9x | 0.8x | 14.8x | 6.2x | 5.6x | 19% | 78% | 4% | 9% | 9% |
| Enlabs | 1 116 | 2.7x | 2.1x | 1.7x | 9.1x | 6.8x | 5.3x | 24% | 36% | 24% | 26% | 29% |
| **Median** | **14 953** | **1.8x** | **1.5x** | **1.4x** | **9.4x** | **7.0x** | **6.8x** | **9%** | **17%** | **12%** | **13%** | **13%** |
| **Suppliers** | | | | | | | | | | | | |
| IGT | 103 816 | 2.2x | 2.2x | 2.2x | 6.3x | 6.2x | 6.2x | 1% | 4% | 20% | 20% | 21% |
| Scientific Games | 102 494 | 3.2x | 3.0x | 2.9x | 8.8x | 7.6x | 7.4x | 4% | 14% | 16% | 19% | 19% |
| PlayTech | 17 068 | 1.1x | 1.1x | 1.0x | 4.2x | 4.2x | 3.9x | 3% | 6% | 16% | 16% | 16% |
| NetEnt | 9 032 | 5.1x | 4.2x | 3.8x | 10.6x | 8.0x | 7.2x | 15% | 26% | 30% | 34% | 36% |
| Kambi | 4 535 | 4.6x | 3.8x | 3.6x | 14.7x | 10.6x | 10.7x | 14% | 24% | 16% | 21% | 19% |
| Aspire Global | 788 | 0.6x | 0.5x | 0.4x | 3.4x | 3.4x | 2.8x | 16% | 11% | 14% | 12% | 13% |
| **Median** | **13 050** | **2.7x** | **2.6x** | **2.6x** | **7.6x** | **6.9x** | **6.7x** | **9%** | **12%** | **16%** | **19%** | **19%** |
| **Affiliates** | | | | | | | | | | | | |
| Better Collective | 4 607 | 6.5x | 4.9x | 4.1x | 11.2x | 9.1x | 7.7x | 26% | 27% | 47% | 47% | 47% |
| Catena Media | 3 378 | 3.1x | 2.8x | 2.5x | 38.0x | 5.9x | 5.1x | 11% | n.m. | -6% | 34% | 37% |
| Net Gaming | 501 | 3.3x | 3.2x | 3.2x | 5.7x | 5.9x | 5.9x | 2% | 2% | 53% | 47% | 53% |
| XL Media | 401 | 0.5x | 0.6x | 0.5x | 1.3x | 1.8x | 1.2x | 2% | 9% | 33% | 17% | 38% |
| Raketech | 287 | 1.1x | 1.1x | 1.0x | 2.6x | 2.3x | 2.1x | 5% | 14% | 25% | 28% | 30% |
| **Median** | **501** | **3.1x** | **2.8x** | **2.5x** | **5.7x** | **5.9x** | **5.1x** | **5%** | **11%** | **33%** | **34%** | **38%** |
| **GiG** | **794** | **0.6x** | **1.0x** | **1.2x** | **5.3x** | **4.8x** | **3.4x** | **-29%** | **n.m.** | **-45%** | **2%** | **22%** |
| ***At Base case*** | ***1 128*** | ***0.9x*** | ***1.4x*** | ***1.7x*** | **7.5x** | **6.8x** | **4.8x** | | | | | |

*Source: Bloomberg & Redeye Research*

### Catalysts

We see several potential catalysts within the next 12 months that may close the valuation gap between the share's current level and our base case.

- Turnaround: We believe that GiG has all the prerequisites for turning around its business. However, in the end, we believe the market wants to see it black on white.
- Improved EPS: GiG is amortizing much on its acquired affiliate assets, and when the amortizations start to decrease during 2020, we will see a large improvement of the EPS. More efficient use of resources should also increase the EPS further.
- Omnichannel: GiG has sign interesting partnerships with the land-based giants Hard Rock and SkyCity. Additional and extended deals like these together will clear effects on the revenue levels should take the valuation to a new level.
- Increased multiples: The valuation multiples within the online gambling segment has been pressured very much during the last year. The current levels indicate a very gloomy future, especially for the affiliate segment. This can change swiftly.

### Scenarios analysis

#### Bull case

Summary:

- Sales CAGR of about 1% between 2019 and 2028
- Average EBIT margin of approximately 24% during the period
- Terminal growth of 2% and terminal EBIT margin of 25%
- Our bull case scenario assumes a turnaround already at the end of 2019 and profitable growth going forward. The growth is driven by the GiG Core business area with a focus on the omnichannel.

Our Bull case yields a fair value of SEK 19 (29) per share.

#### Bear case

Summary:

- Sales CAGR of about -5% between 2019 and 2028
- Average EBIT margin of approximately 15% during the period
- Terminal growth of 2% and terminal EBIT margin of 14%
- Our Bear case scenario assumes a delayed turnaround with a slow improvement of growth and profit margins. The financial position will also force GiG to focus on maintaining acceptable EBITDA levels to meet bond covenants. This will limit GiG´s ability to make any rapid, costly expansions, within any of the business areas.

Our Bear case yields a fair value of SEK 4 (4) per share.

## Valuation summary

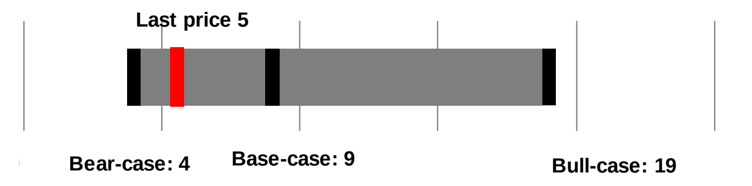
GiG has, with the divestment of the B2C segment, taken strong measures to increase focus and improve the financial position. The sales price for the B2C segment was, however, substantially below what we value the segment to in our previous SOTP valuation, which is the main reason behind the lowered valuation for the group.

We recognize the improved financial position, which lowers the financial risk in the case. However, we see an increased risk, in the short-term, due to the reorganization of the group, which can hamper the daily operations. The

For the remaining B2B segment, the underlying performance was, more or less, in line with our expectations in the fourth quarter. The negative momentum for the Media Services, however, continued, and the company stated that it would invest more in it going forward. Therefore, we lower the margins for the segment during 2020.

In conclusion, we still see a substantial upside in the stock, which is supported by both the DCF valuation and the SOTP valuation. Our fair value range span from SEK 4 per share to SEK 29 per share, with the base case at SEK 9 per share.

**GiG: Fair value range**




*Source: Redeye Research*

### Bear Case 4 SEK

Sales CAGR of about -5% between 2019 and 2028

Average EBIT margin of approximately 14% during the period

Terminal growth of 2% and terminal EBIT margin of 14%

Our Bear case scenario assumes a delayed turnaround with a slow improvement of growth and profit margins. The challenging financial position will also force GiG to focus on maintaining acceptable EBITDA levels to meet bond covenants. This will limit GiG´s ability to make any rapid, costly expansions, within any of the business areas.

### Base Case 9 SEK

Sales CAGR of about -3% between 2019-2028

An average EBIT margin of approximately 19% during the same period

Terminal growth of 2% and terminal EBIT margin of 19%

Our base case assumes that GiG will focus on the GiG core and GiG Media. We believe the increased focus will bring GiG back to growth. The growth together with more efficient use of resources as well as lower amortizations will improve the profit margins. Moreover, with the divestment of the B2C segment, the financial position is improved.

### Bull Case 19 SEK

Sales CAGR of about 1% between 2019 and 2028

Average EBIT margin of approximately 24% during the period

Terminal growth of 2% and terminal EBIT margin of 25%

Our bull case scenario assumes a turnaround already at the end of 2019 and profitable growth going forward. The growth is driven by the GiG Core business area with a focus on the omnichannel.

# Summary Redeye Rating

The rating consists of three valuation keys, each constituting an overall assessment of several factors that are rated on a scale of 0 to 1 points. The maximum score for a valuation key is 5 points.

## Rating changes in the report

**People:** 3

Our Rating for People is highly tilted to the experience and track record of the management team and the CEO in particular. Richard Brown has only held the CEO position for a short time. Our Rating focuses, among others, on; communications and execution. Due to the limited timeframe, we cannot answer most of our check-list questions reliably. Despite this, we find the board as strong and Richard Browns experience as highly valuable for GiG future.

**Business:** 3

The transformation from land-based to digital gambling continues and the Online Gambling industry is expected to show healthy growth and profitability in the coming years. GiG has operations throughout the whole value-chain. Some of these segments, like GiG Gaming and Sportbook Services, is yet to show true traction and profitability. We see a significant opportunity in the USA as a platform provider should benefit when the large US land-based casinos start to move into Online, but the regulation of USA will take time. On the negative side, as for all companies within the industry, there are general and political risks associated with Online Gambling. itself.

**Financials:** 1

The current profitability levels of GiG is low. Many of the new "venture" segments are yet to be proven commercially viable. The core cash generator engine of GiG is the Media business while the Platform Services was hit but a loss of larger clients during 2019. We believe the earnings levels will improve going forward as some product segments might be discounted, and the focus on profitability increases under the new board and management. However, our checklist questions focus on historical figures which leads to the low rating.

| INCOME STATEMENT | 2018 | 2019 | 2020E | 2021E | 2022E |
|---|---|---|---|---|---|
| Net sales | 151 | 123 | 74 | 63 | 64 |
| Total operating costs | -135 | -109 | -58 | -41 | -42 |
| EBITDA | 16 | 14 | 16 | 22 | 23 |
| Depreciation | -34 | -70 | -14 | 1 | 0 |
| Amortization | 0 | 0 | 0 | -10 | -8 |
| Impairment charges | 0 | 0 | 0 | 0 | 0 |
| EBIT | -18 | -56 | 1 | 14 | 15 |
| Share in profits | 0 | 0 | 0 | 0 | 0 |
| Net financial items | -4 | -8 | -4 | -3 | -2 |
| Exchange rate dif. | 0 | 0 | 0 | 0 | 0 |
| Pre-tax profit | -22 | -64 | -3 | 11 | 13 |
| Tax | -1 | -1 | 0 | 0 | -1 |
| Net earnings | -23 | -65 | -3 | 10 | 12 |

| BALANCE SHEET | 2018 | 2019 | 2020E | 2021E | 2022E |
|---|---|---|---|---|---|
| Assets | | | | | |
| *Current assets* | | | | | |
| Cash in banks | 7 | 10 | 7 | 12 | 7 |
| *Receivables* | 28 | 22 | 14 | 12 | 13 |
| Inventories | 0 | 0 | 0 | 0 | 0 |
| Other current assets | 8 | 0 | 0 | 0 | 0 |
| Current assets | 43 | 32 | 21 | 24 | 19 |
| *Fixed assets* | | | | | |
| Tangible assets | 5 | 6 | -6 | -2 | 2 |
| Associated comp. | 0 | 0 | 0 | 0 | 0 |
| Investments | 0 | 0 | 0 | 0 | 0 |
| Goodwill | 70 | 41 | 24 | 24 | 24 |
| Cap. exp. for dev. | 0 | 0 | 0 | 0 | 0 |
| O intangible rights | 69 | 41 | 30 | 25 | 23 |
| O non-current assets | 3 | 16 | 16 | 16 | 16 |
| Total fixed assets | 147 | 103 | 64 | 63 | 64 |
| Deferred tax assets | 0 | 0 | 0 | 0 | 0 |
| Total (assets) | 190 | 136 | 85 | 87 | 83 |
| Liabilities | | | | | |
| *Current liabilities* | | | | | |
| Short-term debt | 1 | 34 | 2 | 0 | 0 |
| Accounts payable | 34 | 33 | 19 | 16 | 16 |
| O current liabilities | 0 | 0 | 0 | 0 | 0 |
| Current liabilities | 35 | 66 | 21 | 16 | 16 |
| Long-term debt | 66 | 33 | 32 | 30 | 15 |
| O long-term liabilities | 0 | 13 | 12 | 11 | 11 |
| Convertibles | 0 | 0 | 0 | 0 | 0 |
| Total Liabilities | 101 | 112 | 65 | 57 | 41 |
| Deferred tax liab | 1 | 1 | 1 | 1 | 1 |
| Provisions | 0 | 0 | 0 | 0 | 0 |
| Shareholders' equity | 88 | 22 | 19 | 29 | 41 |
| Minority interest (BS) | 0 | 0 | 0 | 0 | 0 |
| Minority & equity | 88 | 22 | 19 | 29 | 41 |
| Total liab & SE | 190 | 136 | 85 | 87 | 83 |

| FREE CASH FLOW | 2018 | 2019 | 2020E | 2021E | 2022E |
|---|---|---|---|---|---|
| Net sales | 151 | 123 | 74 | 63 | 64 |
| Total operating costs | -135 | -109 | -58 | -41 | -42 |
| Depreciations total | -34 | -70 | -14 | -9 | -7 |
| EBIT | -18 | -56 | 1 | 14 | 15 |
| Taxes on EBIT | -1 | -1 | 0 | -1 | -1 |
| NOPLAT | -18 | -56 | 1 | 13 | 14 |
| Depreciation | 34 | 70 | 14 | 9 | 7 |
| Gross cash flow | 15 | 14 | 16 | 22 | 21 |
| Change in WC | -2 | 13 | -5 | -1 | -1 |
| Gross CAPEX | -13 | -26 | 25 | -8 | -8 |
| Free cash flow | 1 | 0 | 35 | 12 | 13 |

| CAPITAL STRUCTURE | 2018 | 2019 | 2020E | 2021E | 2022E |
|---|---|---|---|---|---|
| Equity ratio | 46% | 16% | 22% | 33% | 49% |
| Debt/equity ratio | 76% | 301% | 180% | 105% | 37% |
| Net debt | 60 | 57 | 27 | 18 | 8 |
| Capital employed | 148 | 79 | 46 | 47 | 49 |
| Capital turnover rate | 0.8 | 0.9 | 0.9 | 0.7 | 0.8 |

| GROWTH | 2018 | 2019 | 2020E | 2021E | 2022E |
|---|---|---|---|---|---|
| Sales growth | 26% | -19% | -40% | -14% | 2% |
| EPS growth (adj) | 1,215% | 185% | -95% | -390% | 22% |

| DCF VALUATION | |
|---|---|
| WACC (%) | 12.6 % |

| PROFITABILITY | 2018 | 2019 | 2020E | 2021E | 2022E |
|---|---|---|---|---|---|
| ROE | -23% | -118% | -16% | 41% | 35% |
| ROCE | -11% | -46% | 2% | 24% | 27% |
| ROIC | -11% | -38% | 2% | 28% | 30% |
| EBITDA margin | 11% | 11% | 21% | 35% | 35% |
| EBIT margin | -12% | -45% | 2% | 22% | 24% |
| Net margin | -15% | -53% | -5% | 16% | 19% |

| DATA PER SHARE | 2018 | 2019 | 2020E | 2021E | 2022E |
|---|---|---|---|---|---|
| EPS | -0.25 | -0.72 | -0.04 | 0.11 | 0.13 |
| EPS adj | -0.25 | -0.72 | -0.04 | 0.11 | 0.13 |
| Dividend | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 |
| Net debt | 0.67 | 0.63 | 0.30 | 0.20 | 0.09 |
| Total shares | 89.60 | 90.00 | 90.00 | 90.50 | 90.60 |

| VALUATION | 2018 | 2019 | 2020E | 2021E | 2022E |
|---|---|---|---|---|---|
| EV | 1,960.6 | 818.0 | 73.3 | 64.8 | 54.7 |
| P/E | -83.9 | -11.7 | -13.8 | 4.8 | 3.9 |
| P/E diluted | -83.9 | -11.7 | -13.8 | 4.8 | 3.9 |
| P/Sales | 12.6 | 6.2 | 0.6 | 0.7 | 0.7 |
| EV/Sales | 13.0 | 6.7 | 1.0 | 1.0 | 0.8 |
| EV/EBITDA | 121.9 | 57.9 | 4.7 | 2.9 | 2.4 |
| EV/EBIT | -111.3 | -14.7 | 56.7 | 4.8 | 3.6 |
| P/BV | 21.6 | 34.2 | 2.5 | 1.6 | 1.1 |

| SHARE PERFORMANCE | | GROWTH/YEAR | 18/20E |
|---|---|---|---|
| 1 month | -20.3 % | Net sales | -30.3 % |
| 3 month | -8.8 % | Operating profit adj | � |
| 12 month | - | EPS, just | -61.5 % |
| Since start of the year | -35.3 % | Equity | -53.7 % |

| SHAREHOLDER STRUCTURE % | CAPITAL | VOTES |
|---|---|---|
| Swedbank Robur Fonder | 9.2 % | 9.2 % |
| Andre Lavold | 8.4 % | 8.4 % |
| Henrik Persson Ekdahl | 5.2 % | 5.2 % |
| Hans Mikael Hansen | 4.8 % | 4.8 % |
| SEB S.A. nom. | 4.6 % | 4.6 % |
| Myrlid AS | 4.6 % | 4.6 % |
| Morten Hillestad Holding AS | 4.3 % | 4.3 % |
| Frode Fagerli | 4.0 % | 4.0 % |
| Saxo Bank A/S nom. | 3.2 % | 3.2 % |
| Stenshagen Invest AS | 2.8 % | 2.8 % |

| SHARE INFORMATION | |
|---|---|
| Reuters code | GIG / GIGSEK.ST |
| List | Oslo Börs / Nasdaq |
| Share price, SEK | 5.29 |
| Total shares, million | 90.0 |
| Market Cap, MSEK | 480 |

| MANAGEMENT & BOARD | |
|---|---|
| CEO | Richard Brown |
| CFO | Tore Formo |
| Chairman | Petter Nylander |

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# Redeye Rating and Background Definitions

### Company Quality

Company Quality is based on a set of quality checks across three categories; PEOPLE, BUSINESS, FINANCE. These are the building blocks that enable a company to deliver sustained operational outperformance and attractive long-term earnings growth.

Each category is grouped into multiple sub-categories assessed by five checks. These are based on widely accepted and tested investment criteria and used by demonstrably successful investors and investment firms. Each sub-category may also include a complementary check that provides additional information to assist with investment decision-making.

If a check is successful, it is assigned a score of one point; the total successful checks are added to give a score for each sub-category. The overall score for a category is the average of all sub-category scores, based on a scale that ranges from 0 to 5 rounded up to the nearest whole number. The overall score for each category is then used to generate the size of the bar in the Company Quality graphic.

### People

At the end of the day, people drive profits. Not numbers. Understanding the motivations of people behind a business is a significant part of understanding the long-term drive of the company. It all comes down to doing business with people you trust, or at least avoiding dealing with people of questionable character.

The People rating is based on quantitative scores in seven categories:

- Passion, Execution, Capital Allocation, Communication, Compensation, Ownership, and Board.

### Business

If you don't understand the competitive environment and don't have a clear sense of how the business will engage customers, create value and consistently deliver that value at a profit, you won't succeed as an investor. Knowing the business model inside out will provide you some level of certainty and reduce the risk when you buy a stock.

The Business rating is based on quantitative scores grouped into five sub-categories:

- Business Scalability, Market Structure, Value Proposition, Economic Moat, and Operational Risks.

### Financials

Investing is part art, part science. Financial ratios make up most of the science. Ratios are used to evaluate the financial soundness of a business. Also, these ratios are key factors that will impact a company's financial performance and valuation. However, you only need a few to determine whether a company is financially strong or weak.

The Financial rating is based on quantitative scores that are grouped into five separate categories:

- Earnings Power, Profit Margin, Growth Rate, Financial Health, and Earnings Quality.

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Recommendation structure
Redeye does not issue any investment recommendations for fundamental analysis. However, Redeye has developed a proprietary analysis and rating model, Redeye Rating, in which each company is analyzed and evaluated. This analysis aims to provide an independent assessment of the company in question, its opportunities, risks, etc. The purpose is to provide an objective and professional set of data for owners and investors to use in their decision-making.

Redeye Rating (2020-02-26)

| Rating | People | Business | Financials |
|---|---|---|---|
| 5p | 11 | 12 | 4 |
| 3p - 4p | 92 | 70 | 30 |
| 0p - 2p | 9 | 30 | 78 |
| Company N | 112 | 112 | 112 |

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**CONFLICT OF INTERESTS**

Jonas Amnesten owns shares in the company : No

Kristoffer Lindström owns shares in the company : No

Redeye performs/have performed services for the Company and receives/have received compensation from the Company in connection with this.