Gaming Innovation Group

Sector: Betting/Entertainment

Attractive Rizk/reward

Although financing remains challenging and B2B momentum is still negative, Q3 reinforced our conviction in the case for GiG. In particular, the flagship Rizk.com's impressive growth and margins showcase GiG's platform powerfully and highlight the group's capacities. Moreover, we anticipate better B2B sales and earnings in Q4 due to seasonality and lower expenses.

Strong B2C profit margin

The negative momentum continued in the third quarter with a decline in revenues of -19% Y/Y and -2% Q/Q. The negative development was mainly driven by the B2B segment. The B2C segment, on the other hand, impressed with stable growth and a strong All-Time-High EBITDA margin of 12%.

Turnaround potential

GiG´s finances are under control despite its challenging situation. With changes in management completed, the company can now focus more on its core business. More efficient use of resources should lower OpEx, while a better showing by GiG Core, Media and Rizk would pave the way for a turnaround over the next 12 months.

Limited margin for error

The tight financial position limits the company's margin for error. Management changes, cost-cutting and negative B2B momentum add to its risk. We acknowledge that failure to complete a turnaround next year would leave GiG needing additional capital.

Hidden value

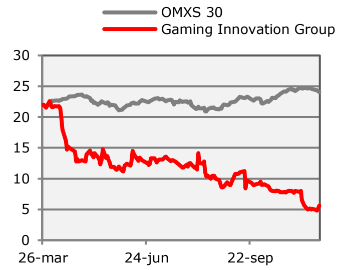
Using either current performance or 2020 estimates, our sum-of-the-parts analysis indicates hidden value in GiG. The Affiliate business alone merits a valuation not far from the group´s current enterprise value. Accordingly, we regard the stock's current level as unjustified and risk/reward as attractive, with a potential upside of over 100% to our base case valuation of SEK 13.

KEY FINANCIALS (EURm)	2017	2018	2019E	2020E	2021E	2022E
Net sales	120	151	125	131	145	158
EBITDA	13	16	13	22	29	28
EBIT	2	-18	-17	6	16	17
EPS (adj.)	0.0	-0.3	-0.3	0.0	0.1	0.1
EV/Sales	34.2	13.0	0.9	0.8	0.7	0.5
EV/EBITDA	329.0	121.9	9.3	4.8	3.3	3.1
EV/EBIT	2559.7	-111.3	-7.0	17.5	6.0	5.0
P/E	-2375.9	-83.9	-2.1	-25.0	5.3	4.5

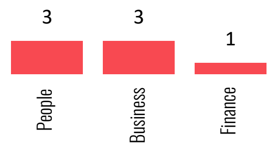
FAIR VALUE RANGE

BEAR	BASE	BULL
SEK 4	SEK 13	SEK 29

GIGSEK.ST VERSUS OMXS30



REDEYE RATING



KEY STATS

Ticker	GIG / GIGSEK
Market (Dual-listed)	Oslo / Nasdaq
Share Price (NOK/SEK)	5.75 / 6.06
Market Cap (MSEK)	545
Net Debt 19E (MSEK)	630
Free Float	40 %
Avg. daily volume ('000)	130

ANALYSTS

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Q3: Impressive Rizk.com development

GiG: Expected vs. Actual

(EURm)	Q3'18	Q3'19	Q3'19E	Diff
Revenues	37.3	30.2	30.7	-1%
Gross Profit	30.9	23.6	24.1	-2%
EBITDA	5.0	2.7	2.2	23%
EBIT	0.1	-6.7	-4.2	61%
EPS (EUR)	-0.03	-0.09	-0.07	44%
Sales growth Y/Y	*21%*	*-19%*	*-18%*	
Sales growth Q/Q	*1%*	*-2%*	*-1%*	
EBITDA margin	*14%*	*9%*	*7%*	
EBIT margin	*0%*	*-22%*	*-14%*	

Source: GiG, Redeye Research

The negative momentum continued in the third quarter with a decline in revenues of -19% Y/Y and -2% Q/Q. The negative development was mainly driven by the B2B segment. The B2C segment, on the other hand, impressed with stable growth and a strong ATH EBITDA margin. The group´s overall revenues came in at EUR 30.2m (estimated EUR 30.7m), which was in line with our expectations.

On the cost side, the COGS was slightly above our estimates, which we believe was driven by the higher B2C share of the group´s revenues. We estimate that the B2C segment has a lower gross profit than the B2B segment. Furthermore, the marketing expenses came in -16% below our estimates, which relates to the increased focus on digital marketing. As a result, the EBITDA came in at EUR 2.7m (estimated EUR 2.2m), which was 23% above our estimate. The EBIT, however, came in at EUR -6.7m (estimated -4.2m). The main reason for the lower EBIT was the impairment of intangible assets connected to GiG games. We had estimated with this impairment in Q4'19. The EPS came in at EUR -0.09 (estimated EUR -0.07).

Business areas

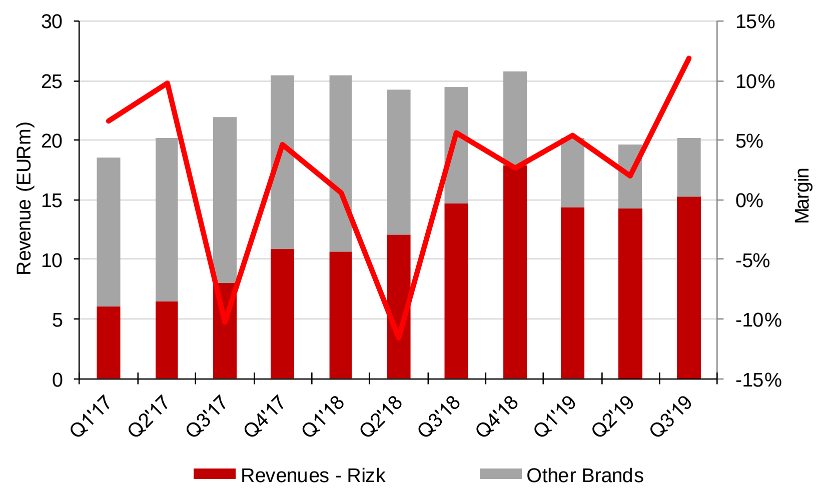
GiG: Expected vs. Actual - B2B & B2C

(EURm)	Q3'18	Q3'19	Q3'19E	Diff
B2B revenues (incl. Internal rev)	15.4	11.8	13.3	-11%
B2B inter-segment revenues	*2.6*	*1.8*	*1.8*	
B2B EBITDA	3.8	0.3	1.9	-84%
B2B EBITDA margin	24%	3%	14%	
B2C revenues	24.4	20.2	19.2	5%
B2C EBITDA	1.4	2.4	0.3	733%
B2C EBITDA margin	6%	12%	2%	

Source: GiG, Redeye Research

The B2B business area came in below our estimates, and on a sub-segment level, all the units underperformed compare to our expectations. The important media segment had weak FTD numbers connected to changed google ranking, which should be back on normal in H1 2020. The B2C operations, on the other hand, had a strong development in the third quarter, mainly driven by the flagship brand Rizk.com.

GiG: B2C Segment - Revenue and EBITDA margin (Q1'17-Q3'19)



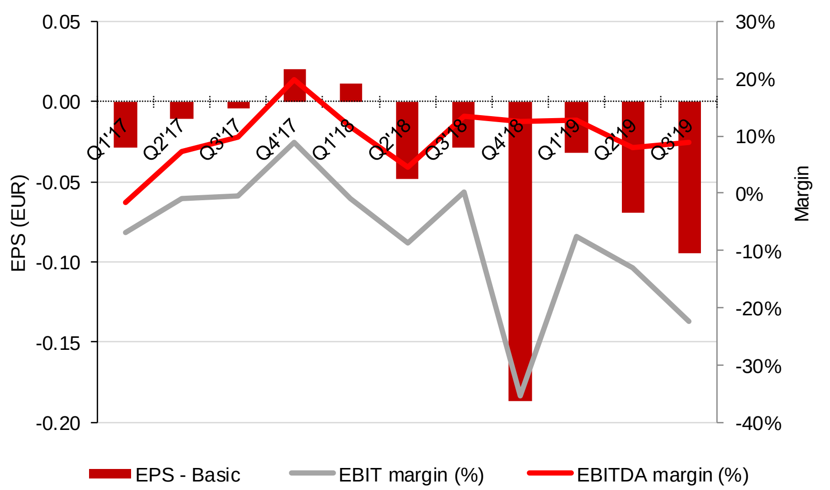
Source: GiG, Redeye Research

The Rizk brand had a positive development in the third quarter with a Q/Q growth of 6% and an EBITDA margin of 17%. The strong development of Rizk.com and the somewhat weak development of the other B2C brands has increased Rizk´s B2C revenue share to 75%, as illustrated in the graph above.

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, however, negatively affected by the impermeant connected to GiG games.

GiG: Revenue, Gross Profit margin and EBITDA margin (Q1'17-Q3'19)

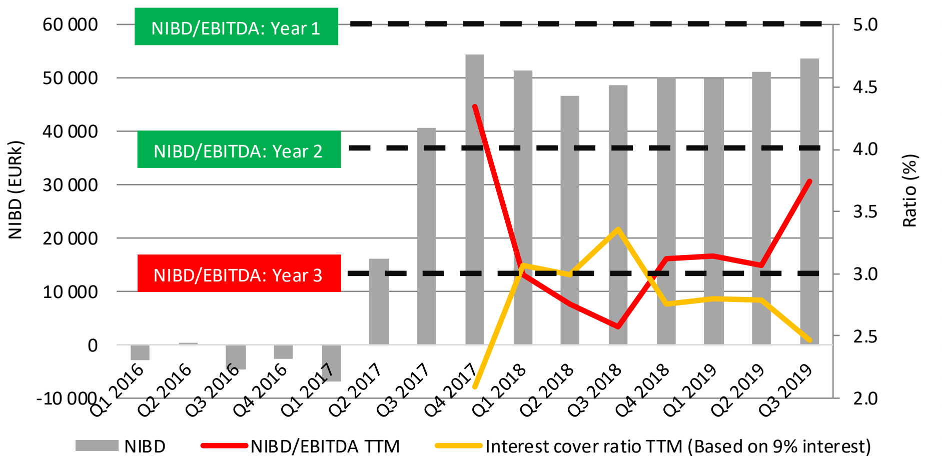


Source: GiG, Redeye Research

Financial position

GiG´s financial position is still challenging as the Cash and cash equivalents decreased, and the net debt remains high. However, the company still has an acceptable margin towards the bond covenants for years 1 and 2, as illustrated in the graph below. Moreover, we expect an EBITDA improvement as the cost cuts kick in beyond the third quarter. The interest cover ratio is also maintained at an acceptable level of 2.5x.

GiG: Bond covenants. NIBD/EBITDA & Interest cover ratio (Q1 2016-Q3 2019)



Source: GiG, Redeye Research

All in all, GiG´s financial situation is under control, and marketing expenses are easy to adjust if necessary. However, there is little room for errors as well as for the company to take advantage of M&A opportunities without major dilution for the current owners.

Q3 in conclusion

GiG´s top-line was in line with our expectations, and the B2C operations impressed us, with a strong development for Rizk.com. The B2B segment came in below our expectations, and we need to see a bottom-line improvement for this segment in the coming quarters. The financial position remains challenging but under control.

Significant events during and after the quarter

- Richard Brown was appointed Chief Executive Officer. The Board decided to replace the previous CEO Robin Reed on 5 September. We think this change in management and leadership is important as the previous vision resulted in a lost focus on the core business.
- In August, GiG launched a turnkey casino solution in New Zealand with its new long-term partner SkyCity Entertainment Group. We believe this is another proof of the competitiveness of GiG´s omni-channel platform.
- GiG extended its partnership with Hard Rock International supporting its market entry with sports betting in the US state of Iowa. We believe this is an important sign that Hard Rock is very satisfied with GiG´s product.
- Highroller was divested to affiliate and operator Ellmount Gaming Ltd. for €7m. The acquirer will become a B2B customer and continue to operate Highroller on GiG's platform. We believe this shows that many of GiG´s assets are undervalued.
- Strengthened cash flow by approximately €250K per month from November 2019 by halting investments in GiG's proprietary game studio. GiG also initiated a project to transfer technical infrastructure to hybrid model leading to an annualised cost saving of approximately €3.5m once fully migrated. We believe these cost savings are key to maintain the bond covenants under control and reach strong cash flows.
- Expansion: Granted online gambling licences in Spain and a Class II licence in Romania for affiliation services. GiG also went live in India with the Rizk brand with plans for further expansion in new territories. Moreover, GiG acquired 75% of the shares of Croatian company Top Games, expanding GiG's B2C online gaming offering in a growing regulated market with the remaining 25% retained by the local partner. The payment for this acquisition is based on a contribution of resources by the parties with no cash being paid. Online operations are expected to start in the first half of 2020. We argue that further expansion of GiG´s business is key for the group´s growth as well as to utilize the scalability of GiG´s operations.

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.

GiG's growth has been strong up to 2018. However, the trend has been negative since then, and we expect that it will take some time to really turnaround the business. The company can also not expand too rapidly with heavy investments in marketing or tech as the financial position is challenging. We also expect the company to focus on its core business and slim its other OpEx for more efficient use of resources.

GiG: Financial forecasts summary

(EURm)	2018	Q1'19	Q2'19	Q3'19	Q4'19E	2019E	Q1'20E	Q2'20E	Q3'20E	Q4'20E	2020E	2021E
Revenues	**151.4**	**32.4**	**31.0**	**30.2**	**31.1**	**124.8**	**30.9**	**31.9**	**33.1**	**34.8**	**130.8**	**144.8**
Gross Profit	124.0	26.0	24.4	23.6	24.2	98.1	23.9	24.7	25.5	26.9	100.9	110.8
Marketing	-47.2	-8.6	-8.9	-7.1	-7.8	-32.4	-7.4	-7.6	-7.9	-8.6	-31.4	-35.0
Other OPEX	-58.8	-13.3	-13.0	-13.7	-12.6	-52.7	-12.0	-11.5	-11.3	-11.2	-46.0	-46.3
EBITDA	**16.1**	**4.1**	**2.5**	**2.7**	**3.3**	**12.6**	**4.1**	**5.2**	**6.0**	**6.8**	**22.1**	**28.7**
D&A	-33.7	-6.6	-6.5	-9.5	-6.9	-29.4	-5.0	-4.1	-3.5	-3.4	-16.0	-12.9
EBIT	**-17.6**	**-2.5**	**-4.0**	**-6.7**	**-3.6**	**-16.8**	**-0.9**	**1.1**	**2.5**	**3.4**	**6.0**	**15.8**
Net Income	-22.6	-2.9	-6.2	-8.5	-5.3	-22.9	-2.6	-0.6	0.8	1.8	-0.6	10.0
EPS, EUR	**-0.25**	**-0.03**	**-0.07**	**-0.09**	**-0.06**	**-0.25**	**-0.03**	**-0.01**	**0.01**	**0.02**	**-0.01**	**0.11**
Growth Y/Y (%)	26%	-13%	-16%	-19%	-22%	-18%	-5%	3%	10%	12%	5%	11%
Growth Q/Q (%)		-19%	-4%	-2%	3%		-1%	3%	4%	5%		
Gross Profit (%)	82%	80%	79%	78%	78%	79%	77%	77%	77%	77%	77%	77%
EBITDA (%)	11%	13%	8%	9%	11%	10%	13%	16%	18%	20%	17%	20%
EBIT (%)	-12%	-8%	-13%	-22%	-11%	-13%	-3%	3%	7%	10%	5%	11%

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: New markets for both the Rizk brand and B2B, in general, will be important to maintain high 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. Larger acquisitions can only be made if the company issue new shares or divest a business area.

Cost allocation

- Cost of sales: We expect the cost of sales within the B2C segment to increase with a presence in more regulated markets. This effect will be countered by a more rapid long-term growth within the B2B segment with, in general, higher gross margin, as well as new markets without gaming taxes.
- Marketing: The company has decreased its marketing expenses to about 24% in relation to revenues. We expect the company to maintain this ratio as the company

focus on more efficient digital marketing channels rather than traditional media such as TV.

- Other operating expenses: We expect the company to slim the OpEx during the 12 months as the company will use resources more efficiently. We do, however, not expect a major decrease in the expense as we estimate that the revenues will level out during 2020 and increase beyond 2020.

Business areas

We expect that the B2B segment will continue to be a profitable segment with strong gross profit and rapid improvement of the EBITDA margin. We also believe that the B2B segment will be the main contributor to the long-term growth with large growth opportunities within Platform Services. We expect that the B2C segment will grow in line with the underlying market on existing markets, and additional markets with the Rizk brand will add growth. We expect that the B2C EBITDA margin will be maintained around 10-12% with a focus on efficient digital marketing.

GiG: Financial forecasts - B2B vs. B2C

(EURm)	2018	Q1'19	Q2'19	Q3'19	Q4'19E	2019E	Q1'20E	Q2'20E	Q3'20E	Q4'20E	2020E	2021E
B2B revenues (incl. inter. rev.)	51.5	12.4	11.3	10.0	10.1	43.8	10.1	10.5	11.0	11.7	43.3	49.7
B2B inter-segment revenues	11.1	1.9	1.8	1.8	2.0	7.5	2.0	2.0	2.1	2.2	8.2	8.9
B2B EBITDA	16.8	2.9	2.1	0.3	1.0	6.3	1.8	2.8	3.4	4.3	12.3	18.2
B2B EBITDA margin	27%	20%	16%	3%	8%	12%	15%	22%	26%	31%	24%	31%
B2C revenues	99.8	20.2	19.6	20.2	21.0	81.0	20.8	21.4	22.1	23.2	87.5	95.0
B2C EBITDA	-0.6	1.1	0.4	2.4	2.3	6.2	2.3	2.5	2.5	2.5	9.8	10.5
B2C EBITDA margin	-1%	5%	2%	12%	11%	8%	11%	12%	12%	11%	11%	11%

Source: GiG, Redeye Research

Looking closer on the B2B segments, we expect that the lower FTD intake in Q3 will slightly hamper the top-line for the Media services in the next few quarters. In the long-term, we expect Media Services to grow in line with the underlying market. However, increased regulations will add some margin pressure. Moreover, we expect that Platform Services will grow as the number of partners increase. The large partnerships with Hard Rock and SkyCity will also boost growth, but we have added modest assumptions regarding the royalty percentage on these partnerships. Furthermore, we expect improved margins as the OpEx decreases while the revenue increases.

The company has communicated that it expects the Sports Betting Services to reach breakeven in H1'20. We do, however, have a more modest approach. We expect strong growth within the business area, but also assumes that it will take a couple of years to reach a critical mass.

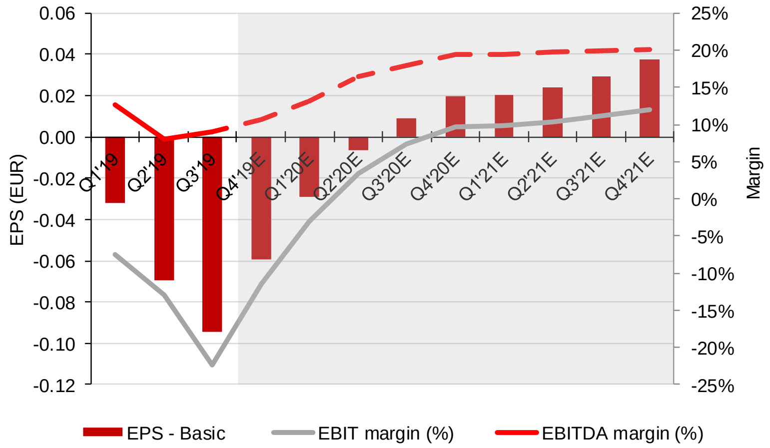
GiG: Financial forecasts - B2B segments

(EURm)	2018	Q1'19	Q2'19	Q3'19	Q4'19E	2019E	Q1'20E	Q2'20E	Q3'20E	Q4'20E	2020E	2021E
Media Services												
Revenue	34.0	9.1	8.6	8.0	8.0	33.7	7.9	8.1	8.2	8.5	32.7	34.7
EBITDA	18.3	5.2	4.7	4.2	4.2	18.3	4.0	4.0	4.0	4.1	16.2	15.8
EBITDA margin (%)	54%	57%	55%	53%	52%	54%	51%	50%	49%	48%	49%	45%
Platform Services												
Revenue	27.1	4.9	4.2	3.6	3.7	16.4	3.7	3.9	4.1	4.4	16.1	19.1
EBITDA	5.7	-0.5	-1.1	-2.1	-1.6	-5.3	-1.0	-0.5	-0.2	0.4	-1.3	2.5
EBITDA margin (%)	21%	-10%	-26%	-58%	-43%	-32%	-28%	-12%	-5%	10%	-8%	13%
Sports Betting Services												
Revenue	1.5	0.3	0.3	0.2	0.3	1.1	0.4	0.6	0.8	0.9	2.7	4.8
EBITDA	-7.1	-1.8	-1.5	-1.8	-1.5	-6.6	-1.2	-0.8	-0.4	-0.2	-2.7	-0.1
EBITDA margin (%)	-476%	-600%	-500%	-900%	-450%	-582%	-300%	-140%	-50%	-25%	-98%	-1%

Source: GiG, Redeye Research

EPS and Profit margins

GiG: EBITDA margin, EBIT margin and EPS (Q1'19-Q4'21E)



Source: GiG, Redeye Research

We expect to see a slow improvement in the EBITDA margin as the operating expenses decrease, and the revenues start to pick up the pace again. Both the EBIT margin and the EPS will have an accelerating improvement as the amortizations of the acquisitions (Mainly affiliates) will decrease rapidly during 2020. The majority of the Affiliate assets are written-off over three years. Development work will, however, continue within the group, and we expect the D&A to level out during 2021.

Forecast changes

The new forecast includes changes in the numbers and the assumptions compared to the last estimate. Based on the development during the third quarter, we expect lower revenues and EBITDA for the B2B segment going forward. We also estimate with an improved EBITDA margin for the B2C segment due to more efficient marketing. As a result, the overall revenues will decline slightly while the earnings improve.

GiG									
Estimate revisions		**2019**			**2020**			**2021**	
(EURm)	**New**	**Old**	***% chg***	**New**	**Old**	***% chg***	**New**	**Old**	***% chg***
Revenue	125	126	*-1%*	131	134	*-2%*	145	148	*-2%*
EBITDA	12.6	12.4	*2%*	22.1	21.2	*4%*	28.7	27.3	*5%*
EBITDA margin	10%	10%		17%	16%		20%	18%	
EPS (EUR)	-0.25	-0.24	*n.m.*	-0.01	-0.02	*n.m.*	0.11	0.10	*15%*

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, Media, and Rizk and other B2C brands offer significant upside to the fair value. We assign no value to GiG Sports as its revenue is limited and it's loss-making, but we see long-term potential in GiG Sports.

Platform and omnichannel

The GiG Core business area will be one of the company's main long-term growth drivers going forward, in combination of B2C expansion and 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 made changes in both the board and management. We believe this signals the start of a new direction and vision for GiG.
- Divesting Highroller.com indicates that the company will focus more on the flagship brand Rizk. The company has also announced that it will enter several new markets with Rizk.com.
- 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 and B2C 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. 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.

Debt burden

GiG has substantial net debt and weak cash flow. Moreover, the new bond increases the interest rate to 9% from 7%, and the company's EBITDA is not trailing far from the covenants leverage ratio limits. This exposes it to further operational negatives, as well as limiting its ability to take advantage of M&A opportunities.

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 12.3%, which is used in all three scenarios.

DCF-valuation – Base Case

Summary:

- Sales CAGR of about 3% between 2018-2028
- An average EBIT margin of approximately 9% during the same period
- Terminal growth of 2% and terminal EBIT margin of 14%
- Our base case assumes that GiG will focus on the GiG core, GiG Media and Rizk. 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.

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 made several changes in the board and management. We expect that the changes will lead to increased focus on the core business as well as more efficient use of resources. As a result of this we see a good chance of turning the negative revenue momentum during 2020 and generate profitable growth onwards.

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, and the Rizk will continue to contribute with profitable growth.

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

Gaming Innovation Group					
Assumptions:	**2018-28**	**2018-21**	**2022-28**	**DCF-value**	
CAGR Sales	3.1%	-1.5%	5.1%	WACC	12.3%
EBIT-margin (avg.)	9.2%	0.7%	12.9%	PV of FCF	111
ROE (avg.)	9%	-5%	15%	PV of Terminal Value	56
Terminal				EV	168
Growth of FCF	2%			Net cash	-60
EBIT margin	13.5%			Dividend correction	0
EV/S Exit multiple	0.8x			Associated companies	0
EV/EBIT Exit multiple	6x			Minorities	0
				DCF-value (EUR)	**108**
				Fair value per share (SEK)	**13**
				Todays price	6
				Potential/Risk	**110%**

Source: Redeye Research

SOTP Valuation

Due to GiG´s negative revenue momentum, challenging financial situation, management changes, and complex company structure. We believe a SOTP valuation is a good complement to the DCF valuation. Moreover, due to the risk connected to the case and especially the financial position, we have added a general discount to the multiples. As a result, the multiples are slightly modest.

SOTP valuation

Segment	(EURm)	Sales 2020	EBITDA 2020	Sales Multiple	EBITDA Multiple	Value	Disc. Value
B2C - The Rizk brand		70.4		1.1x		77	68
B2C - Other brands		17.0		0.4x		7	6
B2B - GiG Core (Platform)		16.1		2.0x		32	28
B2B - GiG Media (Affiliation)			16.2		4.5x	73	64
Sum (EURm)						**189**	**167**
EV	**167**						
Net debt	-60						
SOTP value	**106**						
Per share (SEK)	**13**						

Source: Redeye Research

Based on our estimates for 2020 and modest multiples, the SOTP valuation confirms the DCF valuation. For the Rizk brand we have used a sales multiple of 1.1x for 2020 (increased from 1.0x due to stronger profit margin), which is lower than the median for operators (1.4x-1.3x), see the peer table on the next page. However, the median is increased by several large and very profitable operators. 1.1x is, more or less, in line with LeoVegas and 888, which operations resemble the development of Rizk.com the most.

The other operator brands have declining revenues and incur losses. As a result, we consider the value for these brands as very low and add a sales multiple of 0.4x. However, it is worth mentioning that there might be hidden values here if GiG can divest any of the brands at similar multiples as for the Highroller brand.

The GiG core platform services are currently incurring losses, which we believe merits a discount sales multiple compared to peers. We have added a 30% discount to reflect both the losses as well as the group's overall challenges, which leads to a sales multiple of 2.0x.

The GiG Media is profitable and has been quite stable over time. However, the drop in FTDs due to changes in Google ranking raises some questions. As a result, we have lowered both the estimates and the EBITDA multiple for 2020. Furthermore, also taking into account GiG´s financial position we believe that the GiG media deserves a discount of 20% compared to peers.

All in all, despite slightly modest multiples, we see a large upside in the SOTP valuation compared to the current share price.

Peer table

In the peer table, we have added peers relevant to GiG´s different business areas. Based on our estimates and the consensus estimate for the peers from Bloomberg, we see that the general peer is expected to be both more profitable and generate higher growth rate than GiG. As a result, this merits a discount. However, we believe the current discount is too large, which is illustrated in the EV/Sales increase from 0.9x to 1.2x for 2020.

Peer valuation

		EV/Sales			EV/EBITDA			SALES CAGR	EBIT CAGR	EBIT margin		
Company	**EV (MSEK)**	**2019E**	**2020E**	**2021E**	**2019E**	**2020E**	**2021E**	**18-21E**	**18-21E**	**2019E**	**2020E**	**2021E**
Operators												
Star Group	111 262	4.6x	4.2x	3.9x	12.6x	11.8x	11.0x	17%	42%	19%	22%	22%
Flutter Ent.	91 326	3.4x	3.1x	2.9x	18.3x	16.9x	15.1x	14%	22%	12%	13%	13%
GVC	88 180	2.0x	1.9x	1.8x	10.0x	8.8x	7.8x	12%	135%	13%	16%	19%
William Hill	27 250	1.3x	1.3x	1.3x	9.3x	8.3x	7.3x	4%	-167%	8%	10%	11%
Kindred	15 831	1.4x	1.2x	1.1x	8.7x	6.8x	7.5x	11%	-9%	10%	12%	9%
Rank	11 312	1.2x	1.1x	1.1x	6.1x	5.6x	5.2x	11%	40%	13%	14%	15%
Betsson	7 193	1.4x	1.3x	1.2x	5.7x	5.4x	5.7x	3%	-10%	17%	17%	15%
888	6 383	1.2x	1.1x	1.0x	7.4x	6.8x	6.3x	9%	-6%	11%	11%	12%
Leovegas	3 725	1.0x	0.9x	0.8x	7.7x	6.4x	5.9x	15%	31%	7%	9%	9%
Enlabs	1 370	3.2x	2.5x	2.1x	10.7x	7.8x	6.0x	28%	41%	25%	27%	31%
Global Gaming	102	0.2x	0.3x	0.2x	n.m.	n.m.	8.5x	-23%	-67%	-22%	-2%	1%
Median	**11 312**	**1.4x**	**1.3x**	**1.2x**	**9.0x**	**7.3x**	**7.3x**	**11%**	**22%**	**12%**	**13%**	**13%**
Suppliers												
Scientific Games	110 055	3.3x	3.2x	3.1x	8.3x	8.0x	7.7x	7%	42%	16%	18%	19%
IGT	105 873	2.3x	2.3x	2.2x	6.5x	6.4x	6.3x	4%	19%	19%	20%	20%
PlayTech	19 257	1.2x	1.2x	1.1x	4.7x	4.5x	4.2x	11%	28%	16%	16%	17%
NetEnt	8 430	4.7x	3.8x	3.5x	9.6x	7.4x	6.7x	10%	12%	31%	34%	36%
Kambi	5 267	5.4x	4.3x	3.7x	17.5x	12.1x	10.3x	22%	35%	15%	21%	23%
Aspire Global	1 335	0.9x	0.8x	0.7x	5.5x	5.2x	4.4x	22%	7%	14%	13%	13%
Median	**13 844**	**2.8x**	**2.7x**	**2.7x**	**7.4x**	**6.9x**	**6.5x**	**11%**	**24%**	**16%**	**19%**	**19%**
Affiliates												
Better Collective	4 139	5.8x	4.5x	3.7x	13.8x	10.2x	8.1x	39%	65%	33%	36%	38%
Catena Media	4 092	3.7x	3.2x	2.9x	8.6x	6.7x	5.7x	10%	12%	30%	36%	39%
XL Media	1 240	1.6x	1.6x	1.6x	4.0x	3.5x	3.6x	-10%	9%	31%	35%	38%
Net Gaming	503	3.1x	3.1x	3.1x	5.2x	5.9x	5.9x	-6%	-11%	53%	53%	53%
Raketech	441	1.6x	1.6x	1.5x	2.9x	3.1x	2.8x	5%	-3%	42%	34%	35%
Median	**1 240**	**3.1x**	**3.1x**	**2.9x**	**5.2x**	**5.9x**	**5.7x**	**5%**	**9%**	**33%**	**36%**	**38%**
GiG	**1 185**	**0.9x**	**0.9x**	**0.8x**	**n.m.**	**18.5x**	**7.1x**	**-1%**	**n.m.**	**-13%**	**5%**	**11%**
At Base case	*1 716*	*1.3x*	*1.2x*	*1.1x*	*n.m.*	*26.8x*	*10.3x*					

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.

- Divestments: GiG divested the Highroller brand at an impressive 2.5x sales multiple. We believe further divestments will show the true value of GiG´s assets.
- 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 7% between 2018 and 2028
- Average EBIT margin of approximately 15% during the period
- Terminal growth of 2% and terminal EBIT margin of 19%
- 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. The Rizk brand is expected to contribute with growth from new markets and strong profit margins on established markets.

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

Bear case

Summary:

- Sales CAGR of about 1% between 2018 and 2028
- Average EBIT margin of approximately 5% during the period
- Terminal growth of 2% and terminal EBIT margin of 9%
- 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.

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

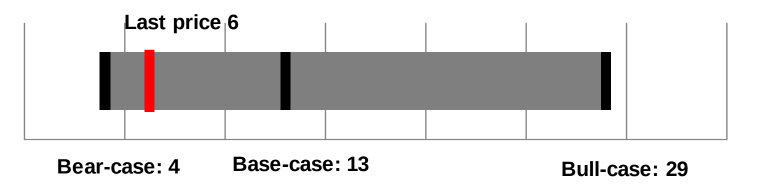
Valuation summary

Our view of the GiG case has not changed much since the initiation in September. The improvements in the B2C segment has offset the negative momentum in the B2B business. The performance for the flagship brand, Rizk.com, is impressive and could become an important cash flow generator with stable growth in the coming years. However, the current very important cash-generating subsegment, Media Sevices, reported some weaker FTD numbers than expected. The development was related to lowered ranking on Google due to changes in the Google algorithm, and this adds some uncertainty to that subsegment going forward.

Our DCF valuation indicates a fair value of SEK 13 per share, which is in line with our SOTP valuation. We have made modest assumptions in our base case, as the uncertainties are many, but we see positive signs of GiG increasing focus on its core business operations. Our bull case scenario indicates a very large upside if GiG can capitalize on the large omnichannel potential and the flagship brand Rizk.com.

However, GiG´s financial position is very challenging, and there is very little room for errors in GiG´s operations from this point. Furthermore, changes within the management and the negative momentum add further uncertainty and risk to the case. As a result, the fair value range span from SEK 4 per share to SEK 29 per share.

GiG: Fair value range



Source: Redeye Research

Bear Case 4 SEK

Sales CAGR of about 1% between 2018 and 2028

Average EBIT margin of approximately 5% during the period

Terminal growth of 2% and terminal EBIT margin of 9%

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 12 SEK

Sales CAGR of about 3% between 2018-2028

Average EBIT margin of approximately 9% during the period

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

Our base case assumes that GiG will focus on the GiG core, GiG Media and Rizk. 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.

Bull Case 29 SEK

Sales CAGR of about 7% between 2018 and 2028

Average EBIT margin of approximately 15% during the period

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

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. The Rizk brand is expected to contribute with growth from new markets and strong profit margins on established markets.

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 is only acting CEO and has only held that tole 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 Rochard 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	2017	2018	2019E	2020E	2021E
Net sales	120	151	125	131	145
Total operating costs	-108	-135	-112	-109	-116
EBITDA	13	16	13	22	29
Depreciation	-11	-34	-29	-1	-1
Amortization	0	0	0	-15	-12
Impairment charges	0	0	0	0	0
EBIT	2	-18	-17	6	16
Share in profits	0	0	0	0	0
Net financial items	-1	-4	-6	-8	-6
Exchange rate dif.	0	0	0	0	0
Pre-tax profit	1	-22	-23	-2	10
Tax	-1	-1	0	0	0
Net earnings	-2	-23	-24	-2	9

BALANCE SHEET	2017	2018	2019E	2020E	2021E
Assets					
Current assets					
Cash in banks	8	7	12	13	14
Receivables	25	28	22	24	28
Inventories	0	0	0	0	0
Other current assets	4	8	4	4	4
Current assets	37	43	39	41	46
Fixed assets					
Tangible assets	4	5	6	5	6
Associated comp.	0	0	0	0	0
Investments	0	0	0	0	0
Goodwill	69	70	70	65	65
Cap. exp. for dev.	0	0	0	0	0
O intangible rights	92	69	56	46	43
O non-current assets	2	3	25	25	25
Total fixed assets	168	147	156	141	139
Deferred tax assets	1	0	0	0	0
Total (assets)	206	190	195	182	184
Liabilities					
Current liabilities					
Short-term debt	0	1	0	0	0
Accounts payable	29	34	32	33	36
O current liabilities	0	0	0	0	0
Current liabilities	29	35	33	33	36
Long-term debt	67	66	80	69	60
O long-term liabilities	0	0	17	16	15
Convertibles	0	0	0	0	0
Total Liabilities	96	101	130	118	111
Deferred tax liab	1	1	1	1	1
Provisions	0	0	0	0	0
Shareholders' equity	109	88	64	62	72
Minority interest (BS)	0	0	0	0	0
Minority & equity	109	88	64	63	72
Total liab & SE	206	190	195	182	184

FREE CASH FLOW	2017	2018	2019E	2020E	2021E
Net sales	120	151	125	131	145
Total operating costs	-108	-135	-112	-109	-116
Depreciations total	-11	-34	-29	-16	-13
EBIT	2	-18	-17	6	16
Taxes on EBIT	0	-1	0	0	-1
NOPLAT	2	-18	-17	6	15
Depreciation	11	34	29	16	13
Gross cash flow	12	15	12	22	28
Change in WC	11	-2	9	-1	0
Gross CAPEX	-70	-13	-39	0	-11
Free cash flow	-46	1	-18	21	17

CAPITAL STRUCTURE	2017	2018	2019E	2020E	2021E
Equity ratio	53%	46%	33%	34%	39%
Debt/equity ratio	62%	76%	125%	111%	84%
Net debt	60	60	68	56	46
Capital employed	168	148	133	119	118
Capital turnover rate	0.6	0.8	0.6	0.7	0.8

GROWTH	2017	2018	2019E	2020E	2021E
Sales growth	125%	26%	-18%	5%	11%
EPS growth (adj)	-157%	1,215%	4%	-92%	-572%

DCF VALUATION		CASH FLOW, MEUR	
WACC (%)	12.3 %	NPV FCF (2018-2020)	28
		NPV FCF (2021-2027)	68
		NPV FCF (2028-)	53
		Non-operating assets	7
		Interest-bearing debt	-67
		Fair value estimate MEUR	88
Assumptions 2017-2023 (%)			
Average sales growth	7.1 %	Fair value e. per share, SEK	13
EBIT margin	7.1 %	Share price, SEK	6.06

PROFITABILITY	2017	2018	2019E	2020E	2021E
ROE	-2%	-23%	-31%	-3%	14%
ROCE	1%	-11%	-11%	4%	12%
ROIC	1%	-11%	-12%	5%	13%
EBITDA margin	10%	11%	10%	17%	20%
EBIT margin	1%	-12%	-13%	5%	11%
Net margin	-1%	-15%	-19%	-2%	6%

DATA PER SHARE	2017	2018	2019E	2020E	2021E
EPS	-0.02	-0.25	-0.26	-0.02	0.10
EPS adj	-0.02	-0.25	-0.26	-0.02	0.10
Dividend	0.00	0.00	0.00	0.00	0.00
Net debt	0.67	0.67	0.76	0.62	0.51
Total shares	88.90	89.60	90.00	90.00	90.50

VALUATION	2017	2018	2019E	2020E	2021E
EV	4,118.6	1,960.6	117.4	105.2	95.1
P/E	-2,375.9	-83.9	-2.1	-25.0	5.3
P/E diluted	-2,375.9	-83.9	-2.1	-25.0	5.3
P/Sales	33.7	12.6	0.4	0.4	0.3
EV/Sales	34.2	13.0	0.9	0.8	0.7
EV/EBITDA	329.0	121.9	9.3	4.8	3.3
EV/EBIT	2,559.7	-111.3	-7.0	17.5	6.0
P/BV	37.3	21.6	0.8	0.8	0.7

SHARE PERFORMANCE		GROWTH/YEAR	16/18E
1 month	-27.6 %	Net sales	1.8 %
3 month	-42.0 %	Operating profit adj	�
12 month	-	EPS, just	269.5 %
Since start of the year	-	Equity	-23.0 %

SHAREHOLDER STRUCTURE %	CAPITAL	VOTES
Swedbank Robur Fonder	9.2 %	9.2 %
Super Innovative Limited	7.2 %	7.2 %
Andre Lavold	5.7 %	5.7 %
Henrik Persson Ekdahl	5.2 %	5.2 %
Hans Michael Hansen	4.8 %	4.8 %
Myrlid AS	4.7 %	4.7 %
Morten Hillestad Holding AS	4.3 %	4.3 %
Frode Fagerli	4.0 %	4.0 %
Stenshagen Invest AS	2.8 %	2.8 %
Saxo Bank A/S nom.	2.3 %	2.3 %

SHARE INFORMATION	
Reuters code	GIG / GIGSEK.ST
List	Oslo Börs / Nasdaq Stockholm
Share price (NOK/SEK)	5.75 / 6.06
Total shares, million	90.0
Market Cap, MSEK	545

MANAGEMENT & BOARD	
CEO	Richard Brown
CFO	Tore Formo
IR	Anna-Lena Åström
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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Disclaimer

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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 (2019-11-25)

Rating	People	Business	Financials
5p	11	10	2
3p - 4p	83	65	27
0p - 2p	10	29	75
Company N	104	104	104

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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.