

Gaming Innovation Group

Sector: Digital entertainment/Betting

Sizing up Platform Segment with Sportnco Acquisition

Redeye has updated estimates and valuation following GiG's Q4-results and the acquisition of Sportnco. Overall, we increase EBITDA estimates with 20-29% for 2022-24E while our base case is increased to SEK31 (SEK29).

Q4-results in line with expectations

GiG reported solid Q4-results where revenue came in slightly above expectations while EBITDA was slightly lower partly on the back of higher-than-expected marketing costs. Looking into 2022, the company reports of a strong start to the year with 20% growth in January.

Sportnco adds high quality sportsbook product

The acquisition of Sportnco which was announced in late December will add a high-quality sportsbook to GiG's product offer. The revenue mix in Sportnco is also highly complementary to GiG's market which creates clear synergy potential. Sportnco will be consolidated in the Platform segment which will increase in size and show solid profitability while the current Sports betting segment will be discontinued.

EBITDA estimates up 20-29% for 2022-24E

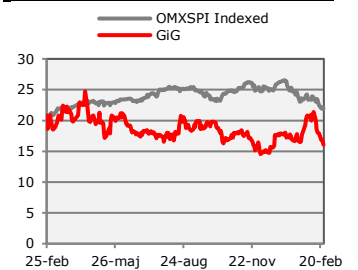
We have increased our EBITDA estimates for 2022-24E mainly on the back of the acquisition of Sportnco. Our base case is increased to SEK31 (SEK29) and we continue to see strong upside potential and attractive valuation in GiG.

Key Financials (SEKm)	2020	2021E	2022E	2023E	2024E
Sales	52	67	86	101	117
Sales growth	19%	28%	28%	18%	15%
EBITDA	11	21	34	43	51
EBIT	-9	7	20	30	38
EBIT Margin (%)	-17%	10%	23%	29%	33%
Net Income	-16	0	12	21	30
EV/Sales	2.5	2.6	2.9	2.2	1.7
EV/EBITDA	12.1	8.4	7.4	5.3	3.9
EV/EBIT	neg	25.0	12.7	7.6	5.1

FAIR VALUE RANGE

BEAR	BASE	BULL
19	31	46

GIG VERSUS OMXS30



REDEYE RATING



KEY STATS

Ticker	GiG
Market	Small Cap
Share Price (SEK)	17.0
Market Cap (SEKm)	2,108
Net Debt 2022E (EURm)	326
Free Float (%)	60%
Avg. daily volume ('000)	50

ANALYSTS

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Q4-results in line with expectations

Continued strong performance in Media segment

In Q4, GiG reported revenue of EUR18.2m which was c. 5% above our estimate of EUR17.4m where the beat was driven by the Media segment. On EBITDA-level the group result of EUR5.6m was somewhat lower than our expectation of EUR6.0m which was driven partly by higher-than-expected marketing costs coupled with a higher loss than expected for the Sports Betting segment. However, as the current Sports Betting segment will be phased out as the acquisition of Sportnco is closed the performance of Media and Platform services are more in focus.

GiG Q4 21 results outcome	Q4 21E	Q4 21A	Diff, %
Revenue	17.4	18.2	5%
Media Services	12.0	12.8	7%
Platform Services	5.2	5.3	2%
Sports Betting	0.2	0.1	-50%
COGS	-0.174	-0.1	-43%
Marketing costs	-2.5	-3.5	40%
Other opex	-8.7	-9.0	3%
EBITDA	6.0	5.6	-7%
Media Services	5.8	5.7	-1%
Platform Services	0.3	0.2	-23%
Sports Betting	0.0	-0.4	n.a.
EBITDA-margin	35%	31%	-11%
EBIT	2.8	1.8	-36%
EPS, EUR	0.01	-0.02	n.a.

Source: Redeye Research

Looking more into the details of the Media segment which saw revenue growth of 42% during the quarter we find it positive that FTD's increased to 60.6k in the quarter which represented a growth of 82% YoY and 30% QoQ. This suggests the growth in Media is likely to continue considering that around 95% of FTD's where on revenue share contracts. For the Platform segment revenue was down QoQ which was in line with expectations on the back of the discontinued contract with Hard Rock. One new brand was added on the platform in quarter with 23 brands live in Q4 which had increased to 25 brands in February 2022. The extension of the contract with Betsson which was recently announced was also important news as this lower the risk in Platform segment. It is also a confirmation that GiG has a strong product while it also suggests that larger operators are interested in using GiG's product over long periods.

Solid start to Q1 22 with 20% growth in January

Coming to the outlook for 2022, the year has started strong with growth of 20% in January which can be compared to our expectation of 13% growth for the full first quarter. GiG furthermore gives a positive outlook for the Platform segment where the acquisition of Sportnco will further improve the segment's growth potential. GiG also expects continued growth for the Media segment where it also highlights its large mix of revenue share contracts which creates stable revenue contribution.

Acquisition of Sportnco

High quality sportsbook added to platform business

With the acquisition of Sportnco that was announced in December GiG will add a high-quality profitable sportsbook to its product portfolio that complements GiG's existing platform business while it will also replace the company's existing and unprofitable sportsbook. Sportnco has seen a strong development since it was launched in 2008 and today it has around 40 partners in 12 countries in Europe and Latin America.

Strong profitability and attractive valuation

Coming to the financials, Sportnco is expected to report revenue of EUR9m and EBITDA of c. EUR5m in 2021E giving an EBITDA-margin of c. 55%. GiG will acquire Sportnco for a total consideration of EUR70m (EUR50.8m of equity and EUR19.2m of debt) which will be paid with c. EUR23.5m in GiG shares and EUR27.3m in cash while GiG will also assume the existing debt in Sportnco. There is also an earn-out of up to EUR23m based on Sportnco's performance in 2022 and 2023. Based on the initial consideration of EUR70m GiG pays around 14x 2021 EV/EBITDA which is attractive in our view.

Complementary market mix with clear synergy opportunities

Looking into the details of Sportnco's operations it has a very complementary revenue mix with a focus on Southern Europe and Latin America. With limited overlap between GiG's current markets and Sportnco's markets there are clear synergies to be achieved. In total, GiG will increase its market presence from 19 markets (including 5 in progress) to 35 markets. This opens for cross selling opportunities for both current GiG and Sportnco which supports the growth potential over the coming years. Sportnco also adds market which are sportsbook focused including for example the US market where Sportnco's product is currently launched as a free-to-play product pending license approval. Finally, GiG also expects cost synergies of around EUR2-3m annually while it also expects to save around EUR3-4m in investments that are now no longer required.

GiG: Market mix Sportnco vs GiG



Source: GiG

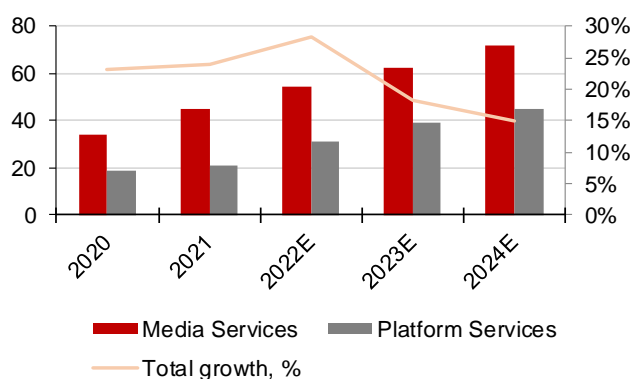
Significant increase of Platform segment

The acquisition of Sportnco is likely to be closed in Q1 or early Q2 and we have included the financial impact from Q2 22. The business will be consolidated in the Platform segment which will now become a more significant part of GiG both in terms of revenue and EBITDA. Sportnco is expected to have revenue of EUR9m and EBITDA of EUR5m in 2021 and it has a strong growth momentum with above 20% growth for the year.

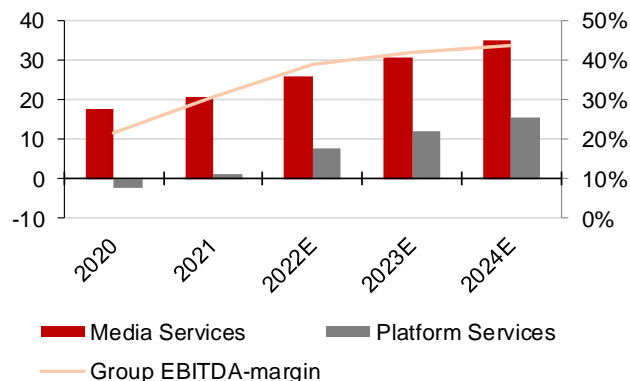
Ahead of the acquisition we had forecasted revenue of EUR23m for GiG's platform segment in 2022E and EUR27m in 2023E. Assuming consolidation of Sportnco in Q2 22 we have increased the revenue estimate for the Platform segment to EUR31m in 2022 and EUR39m for 2023E representing an increase of 34% and 44% respectively.

Coming to EBITDA, the impact is larger considering the strong profitability in Sportnco and our new estimates for Platform EBITDA is EUR8m for 2022 (previous EUR3m) and EUR12m for 2023E (previous EUR5m). We have taken an initial conservative approach to cost synergies which suggests there could also be upside risk on our assumptions.

GIG: Revenue per segment and total growth



GIG: EBITDA per segment and group margin



Source: Redeye Research

Source: Redeye Research

EBITDA estimates increased with 20-29% in 2022-24E

Overall, we have increased our 2022-24E revenue estimates with 13-16% which is mainly driven by the acquisition of Sportnco while we have also increased our growth assumptions for the Media segment. Our EBITDA estimates for 2022-23E are up 20-29% which is also mainly driven by the inclusion of Sportnco in our estimates.

Estimate changes, EURm	2022E	2023E	2024E
Sales new	86	101	117
Sales old	76	88	101
Change	13%	16%	16%
EBITDA new	34	43	51
EBITDA old	28	34	40
Change	20%	26%	29%

Source: Redeye Research

Financial forecasts per segment

The tables below summarize key financials per segment for 2021-24E. The old Sports betting segment is expected to be discontinued from Q1 22 while Sportnco is included in the Platform segment.

Segment revenue	Q1 21	Q2 21	Q3 21	Q4 21	2021	Q1 22E	Q2 22E	Q3 22E	Q4 22E	2022E	2023E	2024E
Media Services	10.0	11.0	11.2	12.8	45.0	13.0	13.2	13.4	14.7	54.4	62.5	71.9
Platform Services	5.2	5.1	5.7	5.3	21.3	5.6	8.1	8.6	9.1	31.4	38.9	44.7
<i>Sports Betting Old</i>	<i>0.2</i>	<i>0.1</i>	<i>0.1</i>	<i>0.1</i>	<i>0.5</i>							
Total revenue	15.4	16.2	17.0	18.2	66.8	18.6	21.3	22.1	23.8	85.8	101.4	116.6

Segment growth	Q1 21	Q2 21	Q3 21	Q4 21	2021	Q1 22E	Q2 22E	Q3 22E	Q4 22E	2022	2023	2024
Media Services	22.0%	27.9%	30.2%	42.2%	30.8%	30.0%	20.0%	20.0%	15.0%	20.8%	15.0%	15.0%
Platform Services	36.8%	8.5%	5.6%	8.2%	13.3%	7.5%	59.0%	51.1%	71.9%	47.5%	23.8%	15.0%
<i>Sports Betting Old</i>	<i>0.0%</i>	<i>0.0%</i>	<i>-50.0%</i>	<i>-50.0%</i>	<i>-28.6%</i>							
Total growth, %	26.2%	20.9%	19.7%	29.1%	23.9%	20.7%	31.5%	29.7%	30.9%	28.4%	18.2%	15.0%

Segment EBITDA	Q1 21	Q2 21	Q3 21	Q4 21	2021	Q1 22E	Q2 22E	Q3 22E	Q4 22E	2022	2023	2024
Media Services	4.6	5.3	5.1	5.7	20.7	6.2	6.3	6.4	7.0	25.8	30.6	35.2
Platform Services	0.3	0.2	0.6	0.2	1.3	0.0	2.4	2.6	2.7	7.7	12.2	15.7
<i>Sports Betting Old</i>	<i>-0.4</i>	<i>-0.2</i>	<i>-0.3</i>	<i>-0.3</i>	<i>-1.2</i>							
Total EBITDA	4.5	5.3	5.3	5.6	20.7	6.2	8.7	9.0	9.7	33.6	42.8	50.9

Segment EBITDA margin	Q1 21	Q2 21	Q3 21	Q4 21	2021	Q1 22E	Q2 22E	Q3 22E	Q4 22E	2022	2023	2024
Media Services	46.0%	48.2%	45.1%	44.5%	45.9%	47.5%	47.5%	47.5%	47.5%	47.5%	49.0%	49.0%
Platform Services	5.8%	3.9%	9.6%	3.8%	5.9%	0.0%	30.0%	30.0%	30.0%	24.7%	31.3%	35.0%
<i>Sports Betting Old</i>	<i>n.m.</i>	<i>n.m.</i>	<i>n.m.</i>	<i>n.m.</i>	<i>n.m.</i>							
Group EBITDA-margin	29.2%	32.7%	31.2%	30.8%	31.0%	33.2%	40.8%	40.7%	40.8%	39.1%	42.2%	43.6%

Source: Redeye Research

DCF-Valuation

With the addition of Sportnco to GiG we have updated our long-term growth and profitability forecasts and our Base case is increased to SEK 31 (SEK 29). We have assumed that shares will increase to 124m as the acquisition as it is paid partly in shares and as GiG will issue share to SkyCity to finance part of the cash consideration. The table below summarize our assumptions for our Base, Bull and Bear cases.

Bear Case SEK 19

Sales growth average of about 8% between 2023-27 and average EBITDA margin of approximately 40% during the period.

Terminal growth of 2% and terminal EBITDA margin of 37.5%.

Our Bear case scenario assumes a slowdown of growth and profit margins with less scalability than expected in the Platform segment.

Base Case SEK 31

Sales growth average of about 12% between 2023-27 and average EBITDA margin of approximately 45% during the same period.

Terminal growth of 2% and terminal EBITDA margin of 42.5%

Our Base case scenario assumes that the Platform Services achieves scalability with improved profitability.

Bull Case SEK 46

Sales growth average of about 15% between 2022-27 and average EBITDA margin of approximately 50% during the period.

Terminal growth of 2% and terminal EBITDA margin of 45%.

Our bull case scenario assumes strong profitability on the back of improving scalability and topline growth driven new markets.

SOTP valuation

In addition to our DCF-valuation we also provide a **SOTP valuation** as profitability levels currently differs between Media, Platform and Sports betting. We also believe this is relevant as the businesses could also be seen as standalone operations especially as the Platform business has become EBITDA positive.

For the **Media business**, we apply an **EV/EBITDA multiple of 9x** which is slightly higher than the current average of listed affiliate companies which we view as fair considering GiG Media's solid organic growth and profitability. For the **Platform business**, we apply an **EV/EBITDA multiple of 15x** which we view as fair as the segment will be highly profitable following the acquisition of Sportnco. **All in all, our SOTP-valuation implies a total value of SEK 33 per share** which gives an **implied multiple of 11x EBITDA 2023E for the group in total.**

SOTP valuation, EURm					
Segment	Sales 2023E	EBITDA 2023E	Sales Multiple	EBITDA Multiple	Value
Platform services	39	12	5x	15x	183
Media services	63	31	4x	9x	276
Sum	101	43	5x	11x	458
EV	458				
Net debt post Sportnco acq.	53				
SOTP value	405				
Per share, SEK	33				

Source: Redeye Research

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.

People: 3

Our Rating for People is highly tilted to the experience and track record of the management team and the CEO in particular. We find the board and CEO very competent, which has helped GiG make several critical decisions during the last two years.

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. With its media, platform and betting solutions GiG has a broad omnichannel offer for operators. 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: 2

GiG's profitability level is improving. The core cash generator engine of GiG is the Media business while the expected profitability improvement in the Platform segment driven by scalability and the acquisition of Sportnco should also improve overall cash flow in the coming years. The divestment of the B2C operations coupled with extended maturity on its bond has also improved the financial position.

	2020	2021	2022	2023		2020	2021	2022	2023
INCOME STATEMENT					DCF Valuation Metrics				Sum DCF (SEKm)
Revenues	52	67	86	101	2023-2026				93
Cost of Revenues	0	0	1	1	2027-2037				212
Gross Profit	52	66	85	100	Terminal				121
Operating Expenses	41	46	51	58	Firm Value				426
EBITDA	11	21	34	43	Net Debt				43
Depreciation & Amortization	19	14	14	13	Equity Value				382
EBIT	-9	7	20	30	Fair Value per Share				31
Net Financial Items	-7	-7	-4	-2					
EBT	-16	0	16	28					
Income Tax Expenses	0	-1	4	7	CAPITAL STRUCTURE				
Non-Controlling Interest	0	0	0	0	Equity Ratio	0.0	0.1	0.4	0.5
Net Income	-16	0	12	21	Debt to equity	10.9	3.6	1.0	0.8
					Net Debt	28	34	43	20
BALANCE SHEET					Capital Employed	63	60	150	170
Assets					Working Capital Turnover	-4.5	-11.0	-59.6	-89.9
Current assets					GROWTH				
Cash & Equivalents	12	9	29	52	Revenue Growth	19%	28%	28%	18%
Inventories	0	0	0	0	Basic EPS Growth	-52%	-102%	2499%	76%
Accounts Receivable	16	18	23	27	Adjusted Basic EPS Growth	-52%	-102%	2499%	76%
Other Current Assets	0	0	0	0					
Total Current Assets	27	26	52	80	PROFITABILITY				
Non-current assets					ROE	-130%	5%	28%	25%
Property, Plant & Equipment, Net	0	0	0	0	ROCE	-14%	12%	13%	17%
Goodwill	16	16	65	65	ROIC	-20%	-37%	19%	20%
Intangible Assets	33	32	47	44	EBITDA Margin (%)	21%	31%	39%	42%
Right-of-Use Assets	0	0	0	0	EBIT Margin (%)	-17%	10%	23%	29%
Shares in Associates	0	0	0	0	Net Income Margin (%)	0%	0%	0%	0%
Other Long-Term Assets	17	13	13	13					
Total Non-Current Assets	66	62	126	123	VALUATION				
Total Assets	93	88	178	203	Basic EPS	-0.2	0.0	0.1	0.2
Liabilities					Adjusted Basic EPS	-0.2	0.0	0.1	0.2
Current liabilities					P/E	neg	396.3	17.5	10.0
Short-Term Debt	3	4	4	4	EV/Revenue	2.5	2.6	2.9	2.2
Short-Term Lease Liabilities	0	3	3	3	EV/EBITDA	12.1	8.4	7.4	5.3
Accounts Payable	27	20	21	25	EV/EBIT	neg	25.0	12.7	7.6
Other Current Liabilities	0	0	0	0	P/B	28.2	11.8	2.9	2.2
Total Current Liabilities	31	27	28	32	SHAREHOLDER STRUCTURE				
Non-current liabilities					Optimus Invest Limited			7.9%	7.9%
Long-Term Debt	36	39	68	68	Myrlid AS			6.6%	6.6%
Long-Term Lease Liabilities	0	0	0	0	True Value Limited			5.1%	5.1%
Other Long-Term Liabilities	23	9	9	9	Ørdea Livsförsäkring Sverige			5.0%	5.0%
Total Non-current Liabilities	59	48	77	77	Slvedbank Robur Ny Teknik			3.8%	3.8%
Non-Controlling Interest	0	0	0	0	SHARE INFORMATION				
Shareholder's Equity	4	12	72	93	Reuters code				GIG
Total Liabilities & Equity	93	88	178	203	List				OMX Small Cap
					Share price				17.0
					Total shares, million				124.0
CASH FLOW					MANAGEMENT & BOARD				
NOPAT	-9	-15	15	22	CEO				Richard Brown
Change in Working Capital	7	-5	-5	0	CFO				Tore Formo
Operating Cash Flow	18	13	21	34	Chairman				Petter Nylander
Capital Expenditures	-2	-1	0	0					
Investment in Intangible Assets	-7	-9	-9	-10	ANALYSTS				Redeye AB
Investing Cash Flow	15	-9	-79	-10	Hjalmar Ahlberg				Mäster Samuelsgatan 42, 10tr
Financing Cash Flow	-25	-6	78	0	Douglas Forsling				111 57 Stockholm
Free Cash Flow	9	3	12	23					

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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Redeye Rating (2021-12-13)

Rating	People	Business	Financials
5p	32	12	4
3p - 4p	144	130	43
0p - 2p	5	36	134
Company N	181	181	181

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CONFLICT OF INTERESTS

Hjalmar Ahlberg owns shares in the company : No

Douglas Forsling 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.