

# Embracer Group

Sector: Gaming

## Higher confidence

Redeye provides an update post Embracers Q1 2023/24 results. The report showed impressive 20% organic growth, which was much stronger than expected, although Adj EBIT came in slightly below estimates due to weaker margin levels in PC/console and Tabletop. Despite somewhat weaker results, management reiterated its guidance for FY 2023/24e with stronger confidence than before.

### 20% organic growth in Q1 2023/24

Net sales grew 20% organically, much stronger than our estimate of 11%. Even if the PC/console segment drove the strong growth, Tabletop and EES were the clear positive deviators in the report. Adj EBIT was, however, a tad below estimates, where cost absorption in PC/console and Tabletop still burdens higher margin levels.

### Weaker cash flow but should improve from Q2 2023/24e

While the free cash flow continues to be a concern, management expects improvement already from Q2 2023/24e, primarily from stronger contributions in PC/console and mobile, while cost efficiencies and lower capex spending should start yielding effects. If Embracer reaches its net debt target by FY 2023/24e and shows improved cash flow throughout the year, it could be enough to act as a catalyst for the share.

### Reiterating our base case of SEK48

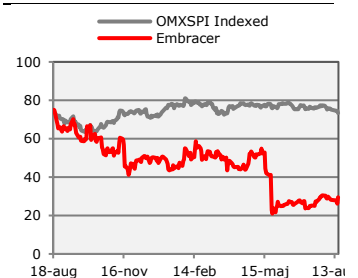
On the back of the Q1 report, we reduce our 2023/24e-2025/26e Adj EBIT estimates by 3-1%, following taking a more conservative view on the future margin development in PC/console. Embracer trades at c6.0x EV/Adj EBIT and c8x EV/EBITDA-Capex in FY 2024/25e while offering a 2022/23-2025/26e Adj EBIT CAGR of 16%. Our base case of **SEK48** is equivalent to FY 2024/25e EV/Adj EBIT of 9x and EV/EBITDA-Capex of 12x. c10% discount versus key peers to reflect its high net debt ratio and somewhat lower margin profile (as of now).

Key Financials (SEKm)	2022/23	2023/24E	2024/25E	2025/26E
Sales	37,665	42,782	46,916	49,299
Sales growth	121%	14%	10%	5%
EBITDA	6,717	8,439	12,299	13,647
Adj EBIT	6,367	7,527	9,057	9,910
Adj EBIT Margin (%)	16.9%	17.6%	19.3%	20.1%
Adj Net Income	5,515	6,050	6,953	7,552
EV/EBITDA	12.2	6.6	4.2	3.5
EV/Adj EBIT	12.9	7.4	5.7	4.8
Adj P/E	11.0	6.3	5.6	5.1

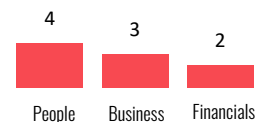
### FAIR VALUE RANGE

BEAR	BASE	BULL
36	48	70

### Embracer VERSUS OMXS30



### REDEYE RATING



### KEY STATS

Ticker	EMBRAC
Market	Large Cap
Share Price (SEK)	29
Market Cap (SEKm)	41,963
Net Debt 2023/24E	13,450
Free Float (%)	62%
Avg. daily volume ('000)	150,000

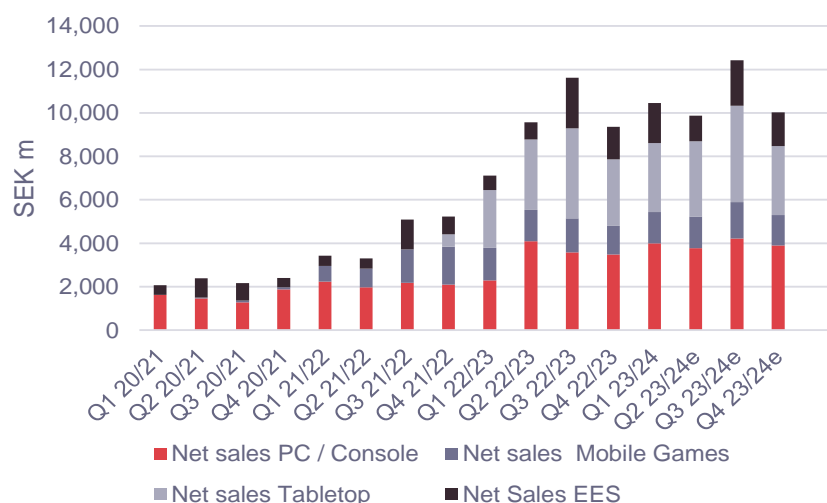
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## Q1 2023/24 review – impressive 20% organic growth

Net sales in Q1 2023/24 came in at SEK10,450m (7,118), 11% above our estimates. Net sales grew 47% y/y, whereof 20% was organic, much stronger than our expectation of 11%. Proforma organic growth for the quarter was also solid and reached 17%. The solid growth in the quarter stems, as expected, from PC/console and primarily due to the release of Dead Island 2. In addition, both Tabletop and EES posted stronger sales than expected, mostly due to licensing revenues from The Lords of the Rings and two notable releases from partner publishing.

### Embracer: Net Sales per segment

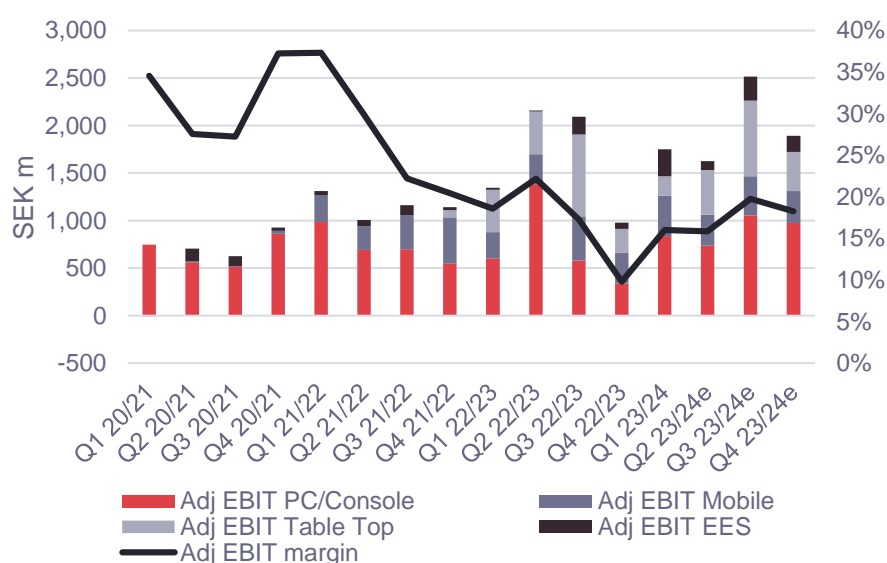


Source: Redeye research

Adj EBIT grew 27% y/y and came in at SEK1,673m (1,322) for a margin of 16% (18.6), although it was -8% below our expectations of SEK1,810m. As expected, PC/console was the major contributor, accounting for 50% of Adj EBIT. However, this was still lower than expected mostly due to lower sales from earlier game releases, which did not match the fixed operating costs. Tabletops Adj EBIT margin of 6%, was weaker, even though it is a seasonally weak quarter, and was burdened by a less favorable product mix and higher operating costs.

On a positive note, mobile delivered an Adj EBIT margin of 29%, despite UA spending being higher than expected (-45% of mobile sales). Despite the number of installs being down 34% y/y, Adj EBIT in mobile grew 53% y/y, partly from stronger monetization than anticipated.

The other major positive deviation in terms of Adj EBIT, was EES. Delivering an Adj EBIT margin of 15%, illustrating the high margin licensing revenues from The Lords of The Rings, which played a major role.

**Embracer: Adj EBIT per segment and group margin %**

Source: Redeye research

## Q1 2023/24 Deviation table

Embracer Group: Deviation table				
(SEK m)	Q1 22/23a	Q1 '23/24a	Redeye Q1 '23/24e	Diff (%)
<b>Net sales - Games</b>	<b>6,447</b>	<b>8,618</b>	<b>8,535</b>	<b>1%</b>
PC/Console	2,294	3,996	4,267	-6%
Mobile	1,488	1,438	1,443	0%
Tabletop	2,665	3,184	2,825	13%
EES	671	1,832	738	148%
<b>Total Net sales</b>	<b>7,118</b>	<b>10,450</b>	<b>9,273</b>	<b>13%</b>
Gross Profit	4,612	6,584	6,222	6%
Cap development	866	1,458	1,206	21%
Other external expenses	-1,806	-2,391	-2,272	5%
O/W UA	-883	-641	-600	7%
Personnel expenses	-2,940	-3,440	-3,366	2%
Other costs	-134	-50	649	-108%
<b>Net Opex</b>	<b>-4,014</b>	<b>-4,423</b>	<b>-3,783</b>	<b>17%</b>
<b>Adj EBIT</b>	<b>1,322</b>	<b>1,673</b>	<b>1,810</b>	<b>-8%</b>
PC/Console	602	837	1,208	-31%
Mobile	277	424	318	34%
Tabletop	445	206	311	-34%
EES	21	284	30	862%
EBIT	-397	421	47	790%
<b>Adj Net income</b>	<b>1,541</b>	<b>1,675</b>	<b>1,329</b>	<b>26%</b>
EBITDA - Capex	-610	188	1,088	-83%
<b>KPI's</b>				
<b>Net sales y/y</b>	<b>134%</b>	<b>47%</b>	<b>30%</b>	
Organic growth %	-12%	20%	11%	
Gross margin %	65%	63.0%	67%	
Adj EBIT margin %	18.6%	16.0%	19.5%	
EBITDA - Capex %	-8.6%	1.8%	11.7%	

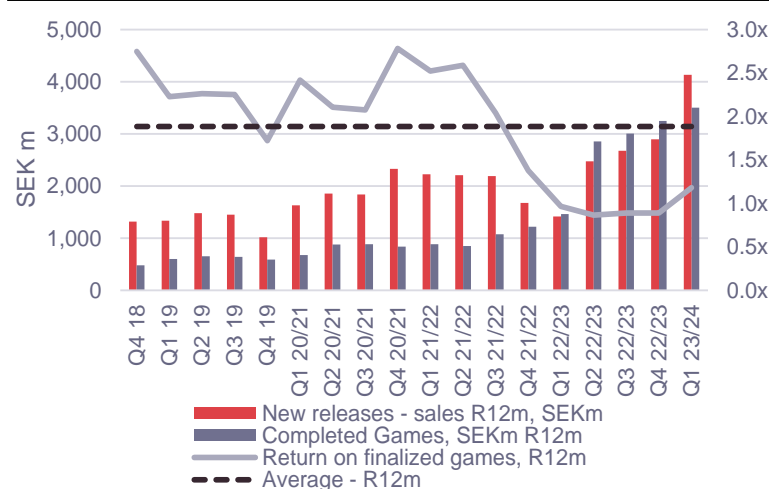
Source: Redeye Research

**PC/Console:**

PC/Console's net sales reached SEK3,996m (2,294), and new game releases contributed SEK1,607m, a tad lower than our estimate of SEK1,838m. The back catalog and other (work-for-hire) performed stronger than expected. Organic sales growth in PC/console was 38% y/y. Adj EBIT grew 39% y/y and reached SEK837m (602), for a margin of 21% (26), slightly below our expectations, and is due to previous major releases still not matching the fixed D&A.

Positively, the ROI on new releases bounced back and reached 2.0x in the quarter and 1.9x on a R12m basis. We argue that this KPI is one of the most important to follow as successful game releases will be critical for double-digit earnings growth in the coming years. The release of Dead Island 2, Remnant 2, and Jagged Alliance 3 have been strong, while other coming releases in Q2 2023/24e, such as Payday 3, look promising, which should lead to a solid ROI even in Q2 2023/24e. We currently pencil in an ROI of c1.7x in FY 2023/24e, followed by c1.5x in FY 2024/25e and FY 2025/26e, still below Embracer's long-term average.

**Embracer: ROI on new released games - R12m**



Source: Redeye research

**Embracer: Sales distribution - PC/Console**



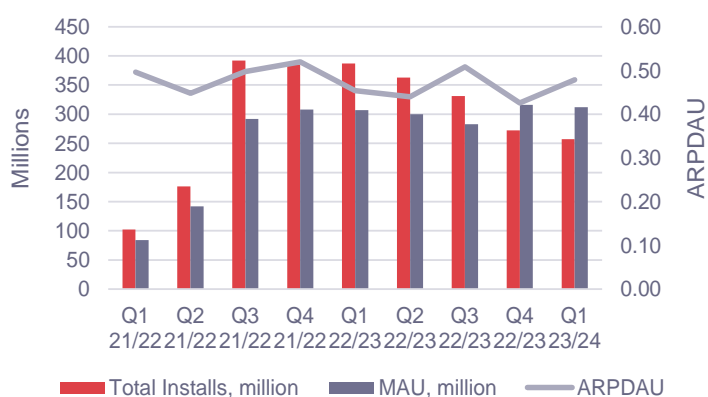
Source: Redeye research

**Mobile:**

Mobile continues to face market challenges due to a slower market for advertising. Sales decreased -12% y/y organically but improved sequentially from Q4 2022/23. Net sales reached SEK1,438m (1,488), aligned with estimates. UA spending reached -45% of sales, a bit higher than we expected. Despite this, mobile delivered an Adj EBIT margin of 29%, beating our Adj EBIT estimates by c34%. The ARP/DAU (monetization) was stronger than anticipated and grew 5% y/y and 12% q/q, despite the number of installs being down -34% y/y and -6% q/q, the major deviation for the stronger results.

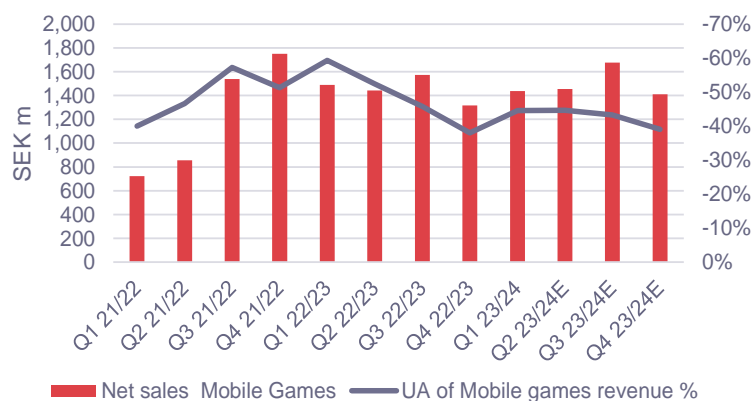
Management expects the mobile market to bounce back gradually during the year and to deliver single-digit organic growth for FY 2023/24e. Mobile has beaten our estimates in the past two quarters on Adj EBIT, and we believe the segment is in a good position to deliver high margins and cash conversion once the mobile market is back to growth.

**Embracer: KPIs Mobile units**



Source: Redeye Research

**Embracer: Mobile games - Net Sales and UA spending %**

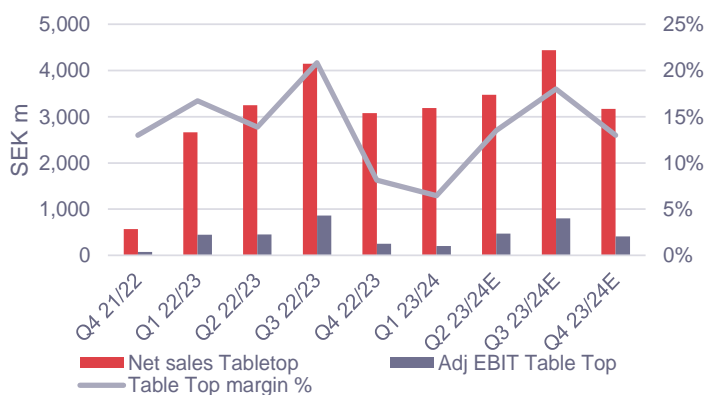


Source: Redeye Research

**Tabletop:**

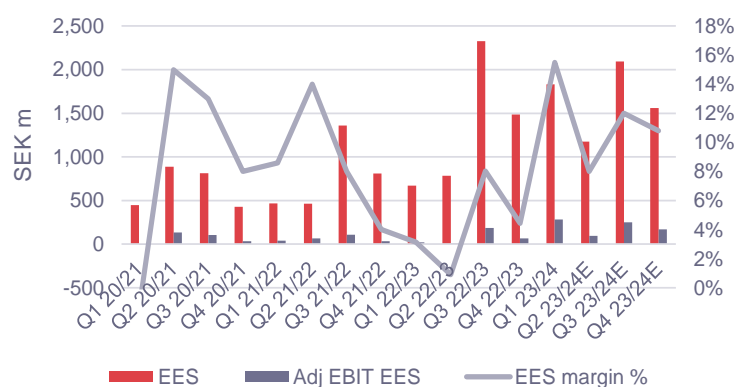
The first quarter is generally a seasonally weak quarter for Tabletop. However, net sales grew 9% organic and came in at SEK3,184m (2,665), 12% above our estimates, where Adj EBIT was below due to a less favorable product mix from trading cards, putting pressure on the gross margin while also seeing increased operating costs versus last years comparable figures. Hence, the Adj EBIT margin reached 6% (16) in the quarter. The unfavorable product mix of trading cards persisted in the first quarter, and cost inflation will put pressure on the Adj EBIT margin for Tabletop in FY 2023/24e. We expect an Adj EBIT of SEK1,885m in FY 2023/24e while management still forecasts a cash conversion of 100%.

**Embracer: Net sales and Adj EBIT margin - Table top**



Source: Redeye Research

**Embracer: Net sales and Adj EBIT margin - EES**



Source: Redeye Research

**EES:**

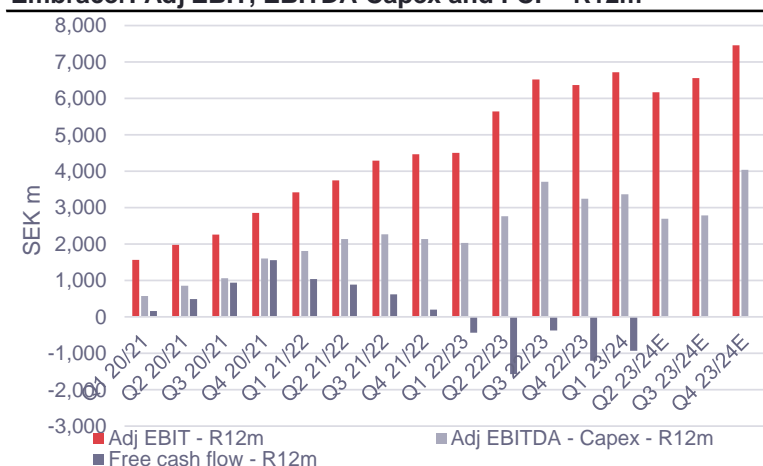
EES was the clear outperformer on both sales and Adj EBIT. Net sales grew 70% organically and were positively affected by the partner publishing deals and licensing revenues from The Lords of The Rings. In total Net sales came in at SEK1,832mm (671) with an Adj EBIT of SEK284mm (21), yielding a margin of 15% (3). This was the strongest margin print yet in EES, illustrating the high margin licensing revenues The Lords of The Rings generate. We tough believe the first quarter saw some initial effect from game releases and take a more conservative view for the remainder of FY 2023/24e. However, we still expect the Adj EBIT margin to improve y/y for each of the quarters.

**Cash flow:**

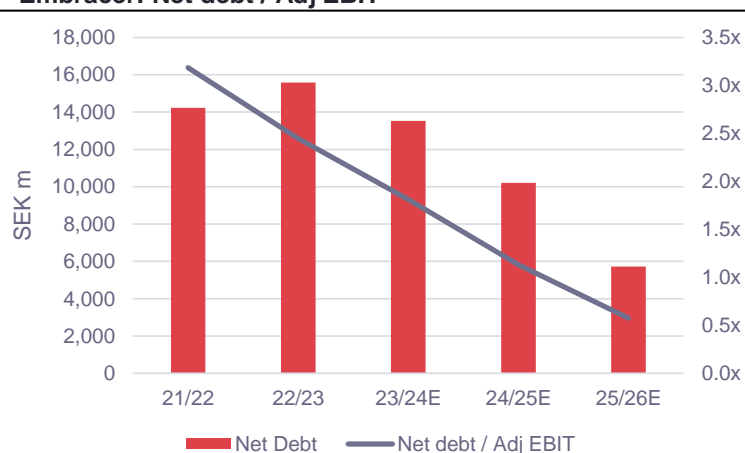
One of the negative aspects of the report was the cash flow. Operating cash flow came in at SEK1,359m, a cash conversion of c50% (Op cash flow / Adj EBITDA). In comparison, the free cash flow and EBITDA-Capex came in at SEK-655m and SEK188m, respectively. While this is a concern, management remains confident of reaching its net debt target of c1.0x Adj EBIT by the end of FY 2023/24e. The free cash flow should improve from Q2 2023/24e due to collected receivables from released games in PC/console, some sales in Q1 2023/24 being posted late in the quarter and as the cost efficiency program starts to yield results. Although, the majority part of the cash generation will be collected in H2 FY 2023/24e following regular seasonal patterns across the segments.

As the graphs illustrate, free cash flow and Adj EBITDA-Capex (an underlying proxy for free cash flow) do not follow Adj EBIT. This is a concern, and delivering on its improved cash flow statement and net debt target would be a catalyst, in our opinion.

**Embracer: Adj EBIT, EBITDA-Capex and FCF - R12m**



**Embracer: Net debt / Adj EBIT**



Source: Redeye Research

Source: Redeye Research

The Net debt remains high and reached SEK16,681m for the quarter, equivalent to 2.5x Adj EBIT. We expect the net debt to reach SEK13,500m in FY 2023/24e, fading to SEK5,700m in FY 2025/26e. Thus, we believe external funding, potential divestments, and positive working capital changes are needed to reach its target of SEK8,000m by FY 2023/24e.

## Estimate changes

On the back of the strong organic growth in Q1 2023/24, we raise our sales estimate and now forecast Embracer to deliver organic growth of c8% y/y in FY 2023/24e, up from our earlier estimate of c4%. We expect organic growth of c10% in FY 2024/25e and c5% in FY 2025/26e.

However, due to lower than expected Adj EBIT in PC/console in the Q1 report, and by taking a more cautious view on the margin improvement in the segment, since the margin level for the core underlying PC/console segment seems to be lower than we previously expected, we lower our FY 2023/24e-2025/26e Adj EBIT estimate by 3-1%.

Embracer Group SEK m	New Estimates			Old Estimates			Diff %		
	2023/24e	2024/25e	2025/26e	2023/24e	2024/25e	2025/26e	2023/24e	2024/25e	2025/26e
<b>Games Net Sales</b>	<b>36,118</b>	<b>39,905</b>	<b>41,832</b>	<b>36,747</b>	<b>40,682</b>	<b>41,775</b>	<b>-2%</b>	<b>-2%</b>	<b>0%</b>
<i>PC/Console</i>	15,879	18,737	19,299	16,757	19,773	19,516	-5%	-5%	-1%
<i>Mobile</i>	5,978	6,337	6,812	5,977	6,335	6,810	0%	0%	0%
<i>Tabletop</i>	14,261	14,831	15,721	14,014	14,574	15,449	2%	2%	2%
<i>EES</i>	6,665	7,011	7,467	4,637	4,878	5,195	44%	44%	44%
<b>Total Net Sales</b>	<b>42,782</b>	<b>46,916</b>	<b>49,299</b>	<b>41,384</b>	<b>45,560</b>	<b>46,970</b>	<b>3%</b>	<b>3%</b>	<b>5%</b>
<b>P&amp;L Statment</b>									
<b>Net Sales</b>	<b>42,782</b>	<b>46,916</b>	<b>49,299</b>	<b>41,384</b>	<b>45,560</b>	<b>46,970</b>	<b>3%</b>	<b>3%</b>	<b>5%</b>
COGS	-16,719	-18,642	-17,941	-15,064	-17,321	-16,343	11%	8%	10%
Gross profit	31,860	33,741	37,033	31,844	33,605	36,099	0%	0%	3%
<b>Net Opex</b>	<b>-17,991</b>	<b>-16,375</b>	<b>-18,111</b>	<b>-16,907</b>	<b>-15,767</b>	<b>-17,054</b>	<b>6%</b>	<b>4%</b>	<b>6%</b>
EBITDA	8,439	12,299	13,647	9,773	12,872	13,973	-14%	-4%	-2%
D&A	-7,530	-7,219	-7,271	-9,380	-7,660	-7,676	-20%	-6%	-5%
EBIT	909	5,080	6,375	393	5,213	6,297	131%	-3%	1%
<b>Adj EBIT</b>	<b>7,527</b>	<b>9,057</b>	<b>9,910</b>	<b>7,790</b>	<b>9,325</b>	<b>10,044</b>	<b>-3%</b>	<b>-3%</b>	<b>-1%</b>
Net finance	1,463	-877	-811	-890.7	-855.5	-767.5	-264%	3%	6%
PTP	2,372	4,203	5,564	-498	4,357	5,529	-576%	-4%	1%
Tax	-1,111	-1,227	-1,547	-1,035	-1,694	-1,855			
Net income	1,261	2,976	4,017	-1,533	2,663	3,674	-182%	12%	9%
<b>Adj Net Income</b>	<b>6,050</b>	<b>6,953</b>	<b>7,552</b>	<b>5,864</b>	<b>6,775</b>	<b>7,421</b>	<b>3%</b>	<b>3%</b>	<b>2%</b>
<b>EPS adjusted</b>	<b>4.62</b>	<b>5.19</b>	<b>5.64</b>	<b>4.47</b>	<b>5.06</b>	<b>5.54</b>	<b>3%</b>	<b>3%</b>	<b>2%</b>
<b>EBITDA - Capex</b>	<b>1,812</b>	<b>6,763</b>	<b>7,780</b>	<b>3,755</b>	<b>7,451</b>	<b>8,195</b>	<b>-52%</b>	<b>-9%</b>	<b>-5%</b>

Source: Redeye research

## Financial estimates

Embracer Group	2022/2023				2023/2024								
SEK m	Q1	Q2	Q3	Q4	Q1	Q2e	Q3e	Q4'e	2021/22	2022/23	2023/24e	2024/25e	2025/26e
<b>Games Net Sales</b>	<b>6,447</b>	<b>8,785</b>	<b>9,294</b>	<b>7,869</b>	<b>8,618</b>	<b>8,699</b>	<b>10,330</b>	<b>8,471</b>	<b>13,937</b>	<b>32,395</b>	<b>36,118</b>	<b>39,905</b>	<b>41,832</b>
PC/Console	2,294	4,097	3,575	3,478	3,996	3,769	4,219	3,895	8,500	13,444	15,879	18,737	19,299
Mobile	1,488	1,441	1,573	1,317	1,438	1,455	1,675	1,409	4,866	5,819	5,978	6,337	6,812
Tabletop	2,665	3,247	4,146	3,074	3,184	3,474	4,436	3,166	571	13,132	14,261	14,831	15,721
EES	671	784	2,328	1,487	1,832	1,176	2,095	1,561	3,102	5,270	6,665	7,011	7,467
<b>Total Net Sales</b>	<b>7,118</b>	<b>9,569</b>	<b>11,622</b>	<b>9,356</b>	<b>10,450</b>	<b>9,875</b>	<b>12,425</b>	<b>10,032</b>	<b>17,039</b>	<b>37,665</b>	<b>42,782</b>	<b>46,916</b>	<b>49,299</b>
<b>P&amp;L Statement</b>													
<b>Net Sales</b>	<b>7,118</b>	<b>9,569</b>	<b>11,622</b>	<b>9,356</b>	<b>10,450</b>	<b>9,875</b>	<b>12,425</b>	<b>10,032</b>	<b>17,067</b>	<b>37,665</b>	<b>42,782</b>	<b>46,916</b>	<b>49,299</b>
COGS	-2,506	-3,300	-5,057	-3,905	-3,915	-3,899	-5,034	-3,871	-4,697	-14,768	-16,719	-18,642	-17,941
Gross profit	5,578	7,495	7,979	7,042	8,083	7,429	8,872	7,476	14,996	28,094	31,860	33,741	37,033
<b>Net Opex</b>	<b>-4,014</b>	<b>-4,523</b>	<b>-4,672</b>	<b>-3,592</b>	<b>-4,429</b>	<b>-4,321</b>	<b>-5,209</b>	<b>-4,032</b>	<b>-8,101</b>	<b>-16,801</b>	<b>-17,991</b>	<b>-16,375</b>	<b>-18,111</b>
EBITDA	703	2,025	1,962	2,027	2,202	1,745	2,272	2,220	1,667	6,717	8,439	12,299	13,647
D&A	-1,100	-1,565	-1,737	-2,122	-1,781	-1,874	-1,935	-1,941	-2,793	-6,524	-7,530	-7,219	-7,271
EBIT	-397	460	225	-95	421	-128	337	279	-1,126	193	909	5,080	6,375
<b>Adj EBIT</b>	<b>1,322</b>	<b>2,121</b>	<b>2,009</b>	<b>915</b>	<b>1,674</b>	<b>1,566</b>	<b>2,455</b>	<b>1,832</b>	<b>4,465</b>	<b>6,367</b>	<b>7,527</b>	<b>9,057</b>	<b>9,910</b>
PC/Console	602	1,384	579	338	837	735	1,055	974	2,926	2,903	3,600	4,497	4,921
Mobile	277	315	464	324	424	327	410	338	1,389	1,380	1,500	1,603	1,771
Tabletop	445	451	864	250	206	469	799	412	74	2,010	1,885	2,373	2,594
EES	21	7	187	66	284	94	251	169	247	281	798	841	881
Central costs	-23	-36	-85	-63	-77	-60	-60	-60	-156	-207	-257	-257	-257
Net finance	538	2,162	1,368	753	2,171	-236	-236	-236	2,896	4,821	1,463	-877	-811
PTP	141	2,622	1,593	658	2,592	-364	101	43	1,770	5,014	2,372	4,203	5,564
Tax	-322	-241	-102	112	-341	-206	-323	-241	-693	-553	-1,111	-1,227	-1,547
Net income	-181	2,381	1,491	770	2,251	-570	-222	-198	1,077	4,461	1,261	2,976	4,017
<b>Adj Net Income</b>	<b>1,541</b>	<b>1,768</b>	<b>1,723</b>	<b>822</b>	<b>1,675</b>	<b>1,124</b>	<b>1,896</b>	<b>1,355</b>	<b>3,925</b>	<b>5,515</b>	<b>6,050</b>	<b>6,953</b>	<b>7,552</b>
<b>EPS adjusted</b>	<b>1.33</b>	<b>1.47</b>	<b>1.39</b>	<b>0.65</b>	<b>1.33</b>	<b>0.86</b>	<b>1.42</b>	<b>1.01</b>	<b>3.69</b>	<b>4.41</b>	<b>4.62</b>	<b>5.19</b>	<b>5.64</b>
<b>EBITDA - Capex</b>	<b>-610</b>	<b>328</b>	<b>334</b>	<b>42</b>	<b>188</b>	<b>215</b>	<b>594</b>	<b>815</b>	<b>2,086</b>	<b>94</b>	<b>1,812</b>	<b>6,763</b>	<b>7,780</b>
<b>Adj EBITDA - Capex</b>	<b>555</b>	<b>1,358</b>	<b>1,377</b>	<b>-47</b>	<b>682</b>	<b>677</b>	<b>1,523</b>	<b>1,230</b>	<b>2,136</b>	<b>3,243</b>	<b>4,112</b>	<b>7,978</b>	<b>8,727</b>
<b>Growth y/y %</b>													
Net Sales	108%	190%	129%	79%	47%	3%	7%	7%	89%	121%	14%	10%	5%
Organic Growth	-12%	32%	-3%	-4%	20%	-5%	8%	8%	12%	2%	8%	10%	5%
EBITDA	-54%	24%	32%	38%	213%	-14%	16%	10%	-58%	303%	26%	46%	11%
Adj EBIT	3%	115%	78%	-14%	27%	-26%	22%	100%	56%	43%	18%	20%	9%
Adj Net Income	29%	144%	104%	-27%	9%	-36%	10%	65%	47%	41%	10%	15%	9%
Adj EPS	3%	103%	67%	-37%	0%	-41%	2%	55%	10%	20%	5%	12%	9%
Other external expense	129%	146%	54%	32%	83%	32%	-7%	4%	248%	83%	4%	4%	5%
Personnel expenses	239%	249%	219%	85%	44%	17%	-6%	-6%	367%	44%	2%	-8%	1%
<b>Net Opex</b>	<b>238%</b>	<b>234%</b>	<b>51%</b>	<b>45%</b>	<b>10%</b>	<b>-4%</b>	<b>12%</b>	<b>12%</b>	<b>323%</b>	<b>107%</b>	<b>7%</b>	<b>-9%</b>	<b>11%</b>
<b>Margins %</b>													
Gross margin %	64.8%	65.5%	56.5%	58.3%	62.5%	60.5%	59.5%	61.4%	72.5%	60.8%	60.9%	60.3%	63.6%
EBITDA margin %	9.9%	21.2%	16.9%	21.7%	21.1%	17.7%	18.3%	22.1%	9.8%	17.8%	19.7%	26.2%	27.7%
Adj EBIT margin %	18.6%	22.2%	17.3%	9.8%	16.0%	15.9%	19.8%	18.3%	26.2%	16.9%	17.6%	19.3%	20.1%
Adj Net Margin %	21.6%	18.5%	14.8%	8.8%	16.0%	11.4%	15.3%	13.5%	23.0%	14.6%	14.1%	14.8%	15.3%
EBITDA - Capex %	-8.6%	3.4%	2.9%	0.4%	1.8%	2.2%	4.8%	8.1%	12.2%	0.2%	4.2%	14.4%	15.8%

Source: Redeye research



## Valuation

## Peer Valuation

Company name	EV	EV/EBITDA			EV/EBIT			Sales growth			FCF yield		
	SEK m	2023	2024	2025	2023	2024	2025	2023	2024	2025	2023	2024	2025
<b>Nordics</b>													
Thunderful	1,536	3.6x	3.3x	3.1x	6.2x	5.5x	5.2x	1%	1%	2%	8%	10%	10%
Paradox	30,429	17.0x	14.6x	13.6x	28.4x	26.1x	22.8x	35%	11%	7%	2%	3%	3%
EG7	1,576	2.9x	3.0x	2.9x	3.6x	3.7x	3.6x	15%	0%	3%	18%	20%	21%
Remedy	3,527	neg	35.7x	15.4x	neg	>100	25.8x	-16%	67%	24%	-6%	-1%	3%
Stillfront	13,148	4.6x	4.6x	4.4x	6.5x	6.1x	5.6x	4%	5%	5%	7%	10%	11%
G5 Entertainment	1,309	4.2x	4.0x	3.7x	8.1x	7.2x	6.8x	-3%	2%	-2%	14%	13%	13%
MTG	5,126	3.8x	3.7x	3.5x	6.9x	6.8x	6.1x	3%	5%	5%	7%	14%	16%
<i>Median</i>	3,527	4.0x	4.0x	3.7x	6.7x	6.4x	6.1x	3%	5%	5%	7%	10%	11%
<i>Average</i>	8,093	5.2x	9.8x	6.7x	8.5x	7.9x	10.9x	6%	13%	6%	7%	10%	11%
<b>International</b>													
Ten Square	1,158	5.0x	5.3x	6.1x	8.4x	5.9x	8.5x	-3%	2%	-9%	12%	12%	10%
Playtika	55,477	6.2x	6.0x	5.6x	9.4x	9.0x	8.5x	3%	3%	3%	10%	10%	11%
11 Bit Studios	4,265	33.7x	7.0x	7.1x	42.9x	8.2x	9.4x	63%	198%	-1%	-2%	9%	6%
Team 17	6,072	8.5x	7.8x	7.2x	10.0x	9.1x	8.5x	13%	7%	7%	7%	7%	7%
KeyWords Studios	16,077	8.5x	7.6x	7.0x	12.0x	10.5x	9.5x	27%	12%	9%	6%	8%	9%
Frontier Developments	1,950	12.0x	8.8x	2.3x	neg	>100	na	5%	9%	1%	-8%	-8%	3%
TinyBuild	108	1.8x	1.6x	1.3x	3.0x	3.5x	2.5x	-20%	6%	8%	2%	3%	5%
Activision	680,139	17.1x	15.6x	14.9x	17.7x	16.1x	15.1x	16%	2%	4%	5%	5%	6%
EA	347,572	12.5x	11.2x	10.7x	13.9x	12.3x	11.4x	10%	7%	5%	6%	7%	7%
Take Two	278,940	31.0x	13.3x	13.3x	32.8x	14.3x	13.2x	8%	45%	1%	0%	4%	6%
CD Project	39,147	26.0x	42.6x	47.3x	35.0x	62.1x	72.2x	24%	-24%	0%	2%	1%	-1%
Ubisoft	50,466	4.4x	4.1x	3.4x	12.1x	10.3x	8.8x	29%	8%	6%	-1%	2%	4%
Sega	38,924	6.8x	6.4x	5.9x	7.9x	7.4x	6.9x	13%	5%	5%	-4%	9%	11%
Capcom	82,887	16.7x	14.9x	13.6x	18.1x	16.1x	14.8x	13%	11%	7%	3%	4%	4%
Square Enix	35,121	7.6x	6.9x	6.9x	8.6x	7.7x	8.0x	5%	2%	-2%	6%	8%	7%
Digital Bros	3,157	5.7x	4.1x	2.9x	10.2x	6.4x	4.3x	-2%	23%	58%	0%	6%	9%
Focus Entertainment	2,595	2.8x	2.3x	2.2x	6.5x	5.6x	5.0x	27%	10%	8%	0%	3%	3%
<i>Median</i>	35,121	8.5x	7.0x	6.9x	11.1x	9.1x	8.7x	13%	7%	5%	2%	6%	6%
<i>Average</i>	96,709	12.1x	9.7x	9.3x	14.6x	12.0x	12.2x	14%	19%	6%	3%	5%	6%
<b>Median Gaming</b>	<b>19,324</b>	<b>6.3x</b>	<b>5.5x</b>	<b>5.3x</b>	<b>8.9x</b>	<b>7.8x</b>	<b>7.4x</b>	<b>8%</b>	<b>6%</b>	<b>5%</b>	<b>4%</b>	<b>8%</b>	<b>9%</b>
<b>Average Gaming</b>	<b>52,401</b>	<b>8.6x</b>	<b>9.8x</b>	<b>8.0x</b>	<b>11.6x</b>	<b>10.0x</b>	<b>11.5x</b>	<b>10%</b>	<b>16%</b>	<b>6%</b>	<b>5%</b>	<b>8%</b>	<b>9%</b>
<b>Tabletop Games &amp; Ips</b>													
Nintendo	388,227	9.9x	11.9x	11.5x	10.1x	11.6x	11.3x	-2%	-4%	4%	7%	6%	5%
Hasbro	138,204	11.0x	10.0x	9.2x	14.0x	12.4x	11.8x	0%	2%	4%	3%	4%	6%
Mattel	106,451	10.5x	9.3x	8.8x	14.7x	12.3x	11.4x	7%	4%	4%	4%	5%	5%
<i>Median</i>	138,204	10.5x	10.0x	9.2x	14.0x	12.3x	11.4x	0%	2%	4%	4%	5%	5%
<i>Average</i>	210,961	10.5x	10.4x	9.8x	12.9x	12.1x	11.5x	2%	1%	4%	5%	5%	5%
<b>Peer Group Median</b>	<b>19,324</b>	<b>6.3x</b>	<b>5.5x</b>	<b>5.3x</b>	<b>8.9x</b>	<b>7.8x</b>	<b>7.4x</b>	<b>1%</b>	<b>4%</b>	<b>4%</b>	<b>3%</b>	<b>6%</b>	<b>6%</b>
<b>Embracer</b>	<b>50,324</b>	<b>4.8x</b>	<b>4.1x</b>	<b>3.8x</b>	<b>6.6x</b>	<b>6.2x</b>	<b>5.6x</b>	<b>12%</b>	<b>8%</b>	<b>5%</b>	<b>5%</b>	<b>8%</b>	<b>9%</b>

Source: Factset

We note that Embracer currently trades at a c45-35% discount versus large international publishers while offering similar growth outlooks and higher FCF yield. Our base case of SEK48 is equivalent to FY 2024/25e EV/Adj EBIT of 9x and EV/EBITDA-Capex of 12x. c10% discount versus key peers to reflect its high net debt ratio and somewhat lower margin profile (as of now).

## DCF Valuation

On the back of the Q1 report, we have higher confidence that Embracer will deliver on its guidance for FY 2023/24e. We make minor estimate revisions and reiterate our valuation range of SEK36-70, with a base case of SEK48. Should, Embracer deliver on its guidance and net debt target of FY 2023/24e, we believe the market will put a lower risk premium on the share.

### Bear Case SEK 36

Sales CAGR 2023-27E: 5%  
Sales CAGR 2028-37E: 3%

Avg EBITDA margin 2023-37E: 29%

Terminal growth: 2%  
Terminal EBITDA margin: 30%.

### Base Case SEK 48

Sales CAGR 2023-27E: 6%  
Sales CAGR 2028-37E: 4%

Avg EBITDA margin 2023-37E: 31%

Terminal growth: 2%  
Terminal EBITDA margin: 34%.

### Bull Case SEK 70

Sales CAGR 2023-27E: 7%  
Sales CAGR 2028-37E: 5%

Avg EBITDA margin 2023-37E: 33%

Terminal growth: 2%  
Terminal EBITDA margin: 38%.

SEK/Share		EBITDA Margin				
		30.0%	32.0%	34.0%	36.0%	38%
	11.5%	34	37	40	43	46
Wacc %	10.5%	41	45	48	51	55
	9.5%	51	55	59	64	68

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: 4**

Embracer is a play on top-class capital allocators with a high proportion of insider ownership. On the negative side, there is no large outside shareholder on the board, poor bonus disclosure of bonus measurements, and two classes of stocks with different voting rights.

### **Business: 3**

Embracer operates in a highly competitive industry. However, the company takes market shares (even organically). A majority of total revenues is recurring (back-catalog and live-service games). We also think the premium games segment enjoys pricing power, meaning with the right quality standard, publishers can raise prices without losing customers.

### **Financials: 2**

Embracer is a company with a strong market position. One of the company's core strategies is to acquire game IPs from companies in financial distress; this has led to a conservative approach regarding putting on debt. The income streams are diversified with a large portfolio of IPs and different games. Overall the video game industry is not sensitive to the business cycle, which dampens the financial risk of downturns. During the past years, Embracer has been growing heavily and still producing more than satisfying margins and return on assets. The future profitability levels will vary due to game release schemes as the business model inherits high scalability. Long-term increasing margins as the company continue to grow, and the revenue streams from their own IPs increase even further.

	2022	2023E	2024E	2025E						
<b>INCOME STATEMENT</b>					<b>DCF Valuation Metrics</b>					<b>Sum FCF (SEKm)</b>
Revenues	37,665	42,782	46,916	49,299	2022-2025				6076	
Cost of Revenues	9,571	10,922	13,175	12,266	2026-2036				49392	
Gross Profit	28,094	31,860	33,741	37,033	Terminal				36205	
Operating Expenses	21,377	23,421	21,442	23,386	Firm Value				91672	
EBITDA	6,717	8,439	12,299	13,647	Net Debt				13452	
Depreciation & Amortization	6,474	5,812	7,219	7,271	Equity Value				78220	
EBIT	6,367	7,527	9,057	9,910	Fair Value per Share				48	
Net Financial Items	4,821	1,463	-877	-811						
EBT	5,014	2,372	4,203	5,564						
Income Tax Expenses	553	1,111	1,227	1,547						
Non-Controlling Interest	53	0	65	0						
Net Income	5,515	6,050	6,953	7,552						
<b>BALANCE SHEET</b>					<b>CAPITAL STRUCTURE</b>					
<b>Assets</b>										
<b>Current assets</b>										
Cash & Equivalents	4,662	6,486	8,339	11,321	Equity Ratio	0.6	0.6	0.6	0.7	
Inventories	4,081	3,423	3,753	3,944	Debt to equity	0.3	0.3	0.2	0.2	
Accounts Receivable	5,253	5,967	6,543	6,876	Net Debt	15,581	13,452	10,099	5,617	
Other Current Assets	3,002	3,300	3,541	3,680	Capital Employed	101,922	107,238	110,680	115,686	
Total Current Assets	16,998	19,175	22,176	25,820	Working Capital Turnover	-33.3	-29.3	-49.2	-74.8	
<b>Non-current assets</b>										
Property, Plant & Equipment, Net	1,148	1,736	2,205	2,797						
Goodwill	48,524	48,524	48,524	48,524						
Intangible Assets	45,579	48,816	49,425	50,017						
Right-of-Use Assets	1,423	1,423	1,423	1,971						
Shares in Associates	253	253	253	253						
Other Long-Term Assets	2,146	2,146	2,146	2,146						
Total Non-Current Assets	99,073	102,898	103,977	105,708						
Total Assets	116,071	122,073	126,153	131,528						
<b>Liabilities</b>										
<b>Current liabilities</b>										
Short-Term Debt	683	683	683	683						
Short-Term Lease Liabilities	444	444	444	444						
Accounts Payable	2,809	3,191	3,499	3,677						
Other Current Liabilities	10,213	10,517	10,847	11,038						
Total Current Liabilities	14,149	14,834	15,473	15,842						
<b>Non-current liabilities</b>										
Long-Term Debt	19,560	19,255	17,755	16,255						
Long-Term Lease Liabilities	1,044	1,044	1,044	544						
Other Long-Term Liabilities	16,597	14,222	12,145	11,664						
Total Non-current Liabilities	37,201	34,521	30,944	28,463						
Non-Controlling Interest	53	0	65	0						
Shareholder's Equity	64,668	72,718	79,671	87,223						
Total Liabilities & Equity	116,071	122,073	126,153	131,528						
<b>CASH FLOW</b>										
NOPAT	5,814	6,416	7,830	8,364						
Change in Working Capital	630	332	-509	-293						
Operating Cash Flow	5,382	9,234	9,776	11,047						
Capital Expenditures	-497	-588	-469	-592						
Investment in Intangible Assets	-5,996	-6,039	-5,067	-5,275						
Investing Cash Flow	-15,490	-8,931	-6,423	-6,566						
Financing Cash Flow	8,501	1,520	-1,500	-1,500						
Free Cash Flow	-1,111	2,608	4,240	5,181						
					<b>GROWTH</b>					
					Revenue Growth	120.7%	13.6%	9.7%	5.1%	
					Basic EPS Growth	-186.7%	-71.5%	114.7%	35.0%	
					Adjusted Basic EPS Growth	19.5%	4.8%	12.3%	8.6%	
					<b>PROFITABILITY</b>					
					ROE	10%	9%	9%	9%	
					ROCE	6%	7%	8%	9%	
					ROIC	7%	7%	8%	8%	
					EBITDA Margin (%)	18%	20%	26%	28%	
					EBIT Margin (%)	17%	18%	19%	20%	
					Net Income Margin (%)	15%	14%	15%	15%	
					<b>VALUATION</b>					
					Basic EPS	3.6	1.0	2.2	3.0	
					Adjusted Basic EPS	4.4	4.6	5.2	5.6	
					P/E	11.0	6.3	5.6	5.1	
					EV/Revenue	2.2	1.3	1.1	1.0	
					EV/EBITDA	12.2	6.6	4.2	3.5	
					EV/EBIT	12.9	7.4	5.7	4.8	
					P/B	0.9	0.5	0.5	0.4	
					<b>SHAREHOLDER STRUCTURE</b>					
					Lars Wingefors AB		20.9%		39.0%	
					Savvy Gaming Group		8.0%		5.4%	
					S3D Media Inc		6.6%		10.6%	
					Canada Pension Plan		3.5%		2.3%	
					PAI Partners		3.5%		2.3%	
					<b>SHARE INFORMATION</b>					
					Reuters code				Embrac	
					List				First North	
					Share price				29.0	
					Total diluted shares, million				1447.0	
					<b>MANAGEMENT &amp; BOARD</b>					
					CEO				Lars Wingefors	
					CFO				Johan Ekström	
					Chairman				Kicki Wallje Lund	
					<b>ANALYSTS</b>					
									Redeye AB	
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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

### Important information

Redeye AB ("Redeye" or "the Company") is a specialist financial advisory boutique that focuses on small and mid-cap growth companies in the Nordic region. We focus on the technology and life science sectors. We provide services within Corporate Broking, Corporate Finance, equity research and investor relations. Our strengths are our award-winning research department, experienced advisers, a unique investor network, and the powerful distribution channel redeye.se. Redeye was founded in 1999 and since 2007 has been subject to the supervision of the Swedish Financial Supervisory Authority.

Redeye is licensed to; receive and transmit orders in financial instruments, provide investment advice to clients regarding financial instruments, prepare and disseminate financial analyses/recommendations for trading in financial instruments, execute orders in financial instruments on behalf of clients, place financial instruments without position taking, provide corporate advice and services within mergers and acquisition, provide services in conjunction with the provision of guarantees regarding financial instruments and to operate as a Certified Advisory business (ancillary authorization).

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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 (2022-08-25)

Rating	People	Business	Financials
5p	28	14	4
3p - 4p	160	139	47
0p - 2p	5	40	142
Company N	193	193	193

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### CONFLICT OF INTERESTS

Tomas Otterbeck owns shares in the company : Yes

Viktor 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.