

Final leg of turnaround commencing

Next Games is through the initiated rights offering commencing the final leg of its turnaround project. Future growth initiatives remain of key importance given the declining revenue trend from live games. We expect growth to accelerate during 2020-2021 following new game launches and profitability to improve but remain at weaker levels.

Rights offering to finance growth opportunities

Next Games has faced challenges following the launch of Our World, in which the company invested heavily during launch, having failed to meet expectations and seeing declines in the user base due to technical difficulties. As a result the company initiated a turnaround project in late 2018. Q2/2019 saw the company reach targeted cost savings levels and as such also improved profitability. Following changes to its operating model Next Games now has nine projects or prototypes under development in addition to Blade Runner Nexus in soft launch and the Stranger Things -game in pre-production. The company is now seeking to move to the final leg of its turnaround project by securing financing for growth initiatives through an EUR 8m rights offering.

Growth dependent on new launches in the coming years

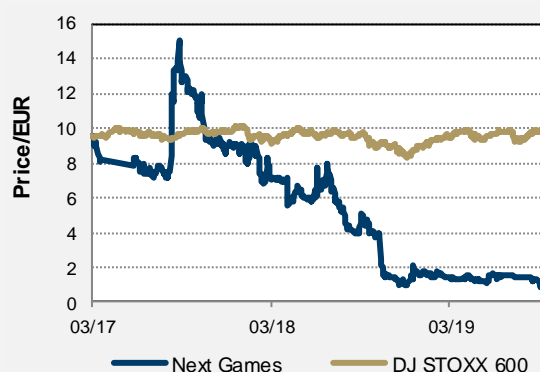
Having seen a declining trend in gross bookings in its two live games, growth in the coming years is dependent on successful new games launches, with Next Games target to launch at least one new game per year. We expect sales growth to accelerate in 2020 with the expected launch of Blade Runner Nexus in late 2019 and the Stranger Things -game in 2020. The new game launches are expected to impact on profitability, and we expect the EBIT-margin to remain negative until 2021.

HOLD with a target price of EUR 1.0 (1.5)

We adjust our target price to EUR 1.0 (1.5) following the expected dilution from the rights offering, with our minor estimates revisions not having a significant impact. Valuation still quite justifiably emphasizes near-term uncertainties and we consider current valuation levels reasonable.

Rating

■ HOLD



Share price, EUR (Last trading day's closing price) 0.92

Target price, EUR 1.0

Latest change in recommendation 11-Jan-19

Latest report on company 29-Jul-19

Research paid by issuer: YES

No. of shares outstanding, '000's 18,610

No. of shares fully diluted, '000's 27,909

Market cap, EURm 26

Free float, % 45.0

Exchange rate -

Reuters code NXTGMS.HE

Bloomberg code NXTGMS FH

Average daily volume, EURm 0.0

Next interim report 01-Nov-19

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■ BUY ■ HOLD ■ SELL

KEY FIGURES

	Sales EURm	EBIT EURm	EBIT %	Ptx profit EURm	EPS EUR	P/E (x)	EV/Sales (x)	P/CF (x)	EV/EBIT (x)	DPS EUR
2017	32	-5	-15.6%	-6	-0.34	-30.1	4.4	-24.4	-28.1	0.00
2018	35	-17	-48.0%	-17	-0.97	-1.1	0.5	-1.3	-1.1	0.00
2019E	38	-7	-18.7%	-8	-0.22	-4.3	0.6	50.8	-3.2	0.00
2020E	53	-3	-6.1%	-4	-0.10	-8.9	0.5	9.5	-8.3	0.00
2021E	68	1	1.1%	0	0.01	100.6	0.4	4.0	37.5	0.00
Market cap, EURm			26	BV per share 2019E, EUR			0.9	CAGR EPS 2018-21, %		0.0
Net debt 2019E, EURm			-3	Price/book 2019E			1.0	CAGR sales 2018-21, %		24.7
Enterprise value, EURm			22	Dividend yield 2019E, %			0.0	ROE 2019E, %		-25.3
Total assets 2019E, EURm			40	Tax rate 2019E, %			20.0	ROCE 2019E, %		-23.4
Goodwill 2019E, EURm			3	Equity ratio 2019E, %			61.8	PEG, P/E 19/CAGR		0.0

All the important disclosures can be found on the last pages of this report.

Investment Summary

Developer and publisher of third party IP based mobile games	Next Games is a developer and publisher of third party IP based mobile games. The company has two live games: The Walking Dead: No Man's Land and The Walking Dead: Our World. The games are offered free-to-play and the main source of revenue is in-app purchases. The company has just over 100 employees.
Target to publish at least one game per year	The company seeks to build a portfolio of mobile games and as part of the strategy the company aims to publish at least one game per year. The game Blade Runner Nexus is currently in soft launch and a game based on Netflix's Stranger Things -series in pre-production. Additionally, the company has nine other projects or prototypes in development.
Rapidly growing industry	The overall gaming market globally is growing rapidly. Growth in mobile gaming is expected to be among the strongest compared to other platforms, with the mobile gaming market expected to grow at a CAGR of around 11 % between 2018-2022 according to Newzoo estimates ¹ .
Expected growth mainly from games in development	Next Games has during the past 12 months seen a declining trend for the gross bookings of its current two live games. No Man's Land was launched in 2015 and has in that sense pulled off a solid performance and is still contributing significantly to revenue. Our World has however faced challenges since the period after the game was launched, with technical difficulties having affected the users' gameplay experiences and as such possibilities to scale, and key operational metrics as such below expectations. Although the game still has potential for recovery and improvement, we have not assumed significant improvements in the coming years and expect growth to arise from the launch of new games. We expect the launch of Blade Runner Nexus in late-2019 and the Stranger Things -game in 2020 along with two other launches in 2021. We have estimated sales growth of 7%, 40% and 29% in 2019E, 2020E and 2021E respectively, estimating revenue to reach EUR 68.2m in 2021.
Profitability expected to remain negative in coming years due to new game launches	Next Games has since its founding in 2013 sought to grow and the company has yet to achieve healthy levels of profitability. A large portion of costs are fixed to revenue in form of commissions and licenses. Sales and marketing costs also form a significant cost, especially when launching new games. Following Next Games' turnaround project, initiated in the latter half of 2018, the cost structure by Q2/19 was at a more satisfactory level and profitability improved but we still expect profitability to remain negative due to new game launches. We expect Next Games to reach a barely positive EBIT-margin in 2021E.
Main risks to investment case	Due to the nature of the expected sales growth of Next Games, relying largely on the new games in the development pipeline with low visibility, we note certain significant risks to our investment case. The main risks are 1) new games in development not being launched or not succeeding well, 2) rapid declines in interest for the company's live games, and 3) failure to acquire users, resulting in lower profitability.
HOLD with a target price of EUR 1.0 (1.5)	We adjust our target price to EUR 1.0 (1.5) following the expected dilution from the rights offering, with our minor estimates revisions not having a significant impact. Valuation still quite justifiably emphasizes near-term uncertainties and we consider current valuation levels reasonable, thus retaining our HOLD-rating. Our target price values Next Games at 0.7x 2019E EV/sales, which is clearly below peers, but which we consider justifiable given the challenges that Next Games has faced and still faces.

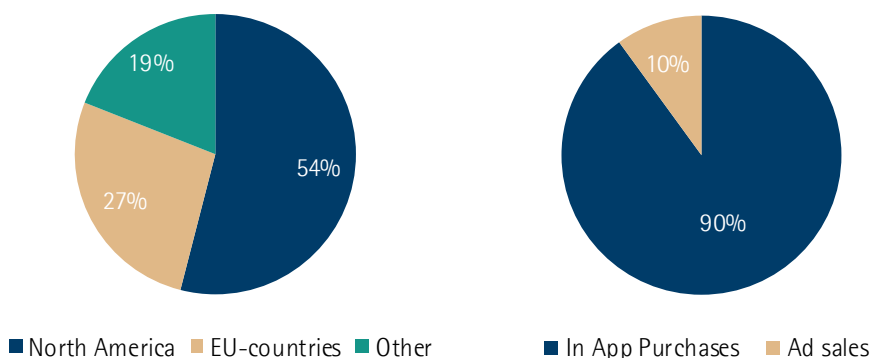
¹ Newzoo 2019 Global Mobile Market Report

Company and business overview

Developer and publisher of third-party IP based mobile games

Next Games is a developer and publisher of third-party IP based mobile games. The company develops games based on licenses of mass entertainment products such as TV series and movies. The games are distributed via two main platforms: Apple's App Store and Google Play. The company currently operates two live games: The Walking Dead: No Man's Land and The Walking Dead: Our World. The company's games in total have some 350 thousand daily active users (Q2/19).

Figure 1: Next Games gross bookings by geography and product, 2018



Source: Next Games, Evli Research

Revenue based on in-app purchases and advertisement

The company develops and publishes free-to-play mobile games that create revenue primarily through sales of virtual in-game goods. These transactions account for 90% of the company's revenue. The remaining 10% comes from in-game ads. Next Games' revenue in 2018 amounted to EUR 35.2m, with the average revenue per daily active user at a commendable EUR 0.21 during 2018.

Investing in technology to gain long-term benefits

Next Games aims to offer mobile games as a continuous service (game-as-a-service, "GAAS") by maintaining and updating its live games, thereby forming a loyal player base. The company has continued to develop its own technology platforms and has invested in for instance machine learning and artificial intelligence, with the aim to gain benefits of scale, improve live operations, and decrease time to market of new games.

Intention to release at least one game per year

Next Games targets to release at least one game per year. In addition to the two live games Next Games has one game in soft launch, Blade Runner Nexus, and one in pre-production, along with nine other projects and prototypes in the pipeline.

Next Games SWOT-analysis

Strengths

- Licensed IP focus
- Technology and analytics platforms
- Player acquisition and retention

Weaknesses

- Dependency on few products
- Low predictability
- Variable costs

Opportunities

- Expansion in Asia
- Strongly growing mobile gaming ind.
- New projects in development pipeline

Threats

- Choosing unsuccessful IPs
- Rapid industry changes
- Skewed industry success

Operating model

Games offered as "freemium" model with no pay to play requirement

Next Games develops and publishes mobile games based on licenses from mass entertainment products such as TV series and movies. The games are released as free-to-play, which does not require a payment from the user. The "freemium" model has largely replaced the formerly more dominant pay-to-play model among mobile games.

New projects in the pipeline

Next Games has developed one game (Compass point: West, development discontinued) based on own intellectual property (IP) and two other games (The Walking Dead: No Man's Land and The Walking Dead: Our World) based on agreements with the license holders. The company has opted to focus primarily on licensed games and has two third-party IP games under development under different license agreements. One of the games, Blade Runner Nexus, has already progressed to soft launch. Furthermore, the company has nine projects in concepting and prototyping, for which very little information has been given regarding any possible third-party IP linked to the games. The company's goal is to release at least one game per year.

In-app purchases 90 % of revenue in 2018

The "freemium"-model lowers the barrier to start playing the game, after which players can improve the gaming experience through in-app purchases (IAP). Virtual products can be roughly divided into three subcategories: 1. Virtual currency that can be used to purchase in-game goods. 2. Non-durable virtual goods that accelerate progress in the game and 3. Durable virtual goods that improve gaming experience over a game's lifetime. Users are often offered larger bundle packs at a slight discount to increase the amount of purchases. In 2018 IAPs stood for 90 % of gross bookings.

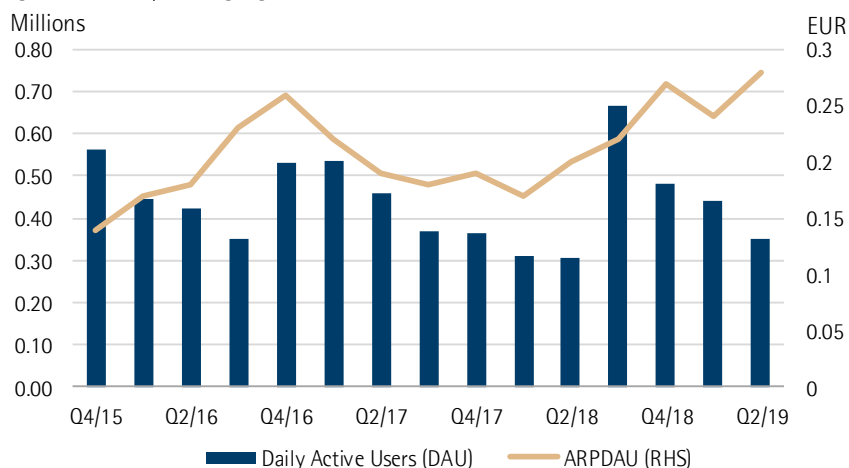
Advertisement revenue and additional, smaller revenue stream

Next Games has also sought to enhance revenue generation through advertising, accounting for 10% of gross bookings in 2018. The company has developed proprietary technological solutions and trialled location-based advertising for better optimization of ads and targeting the right audience with the right kind of ads. The optimization of advertising is however a rather delicate process, as more advertisement may impact on users' game experience to such an extent that they opt not to play the game anymore.

Three components for success with current operating model

Success with the current operating model in our view is based on three components: first, good relationships with license owners are a necessity in order to gain the rights to popular franchises. The company believes that a good track-record in producing popular license-based games will facilitate acquisition of new IP contracts. Secondly, developers must be able to create and continuously update high-class, engaging games. Thirdly, a good understanding of the gaming community is needed to be able to focus user acquisition spending to acquire new players as well as retain the existing players.

Figure 2: Key operating figures



Source: Next Games, Evli Research. The key metrics are described in detail on page 33

Monetization optimization tricky but Next Games has achieved commendable levels

Recognized entertainment brands and the “freemium” model offer good means to attract a large number of new players. As in-app purchases are often only a means of enabling more rapid development in-game, a challenge for mobile gaming companies is to create such content that players are willing to spend money on. Game publishers may also seek to increase revenue through in-game advertising but risk losing player interest if used over excessively. Optimizing monetization remains a vital challenge for free-to-play mobile game publishers as over-monetization may result in a backlash from the gaming community. Next Games has been seemingly successful in monetization based on a comparison of ARPDAU (=average revenue per daily active user). Next Games’ ARPDAU during 2018 amounted to USD 0.25. For reference the ARPDAU for the 15% of best performing games has hovered around USD 0.15, and the median ARPDAU in the strategy games category just above USD 0.10².

In 2018 North America accounted for 54% of gross bookings, EU-countries for 27% and ROW for 19%. The high share of sales from North America has been a result of the popularity of the The Walking Dead -series in the United States along with it being a major market for mobile gaming.

Known brands facilitate customer acquisition

The Walking Dead -brand is widely recognized with an existing fan base, which helps to attract new users to the game and retaining existing users. Known brands offer an advantage compared to game developers who only operate with in-house characters. In the mobile gaming industry sizable amounts of funds are used to attract new users, for instance through advertisements in apps. Next Games does not publish figures regarding the efficiency of its marketing investments but according to the company its player acquisition is highly efficient in part due to organic downloads driven from the original IP’s pre-existing fan base. Film and TV studios also see mobile games as natural extensions to the original experience that can help to retain franchise popularity between season breaks.

Continuous developing key to customer retention

The gaming market moves very rapidly and low barriers to entry have seen streams of new game developers emerging while many fail to succeed. Next Games wants to build close connections to the gaming community by offering promotions, campaigns and other events that help to retain paying customers. Games have to co-evolve with the underlying brands in order to retain their attractiveness, and thereby customer bases. Next Games has for instance developed new content to its games on a weekly level, based on the TV series’ latest episodes.

Figure 3: Next Games’ simplified operating model



Source: Next Games

² GameAnalytics: Mobile Gaming Industry Analysis for 2018

Licensed IP games developed in close cooperation with IP-owners

Next Games aims to develop mobile games based on well-known entertainment franchises with a long-standing fan base. The company assesses possible new IP-rights based on game viability, the monetization profile and co-operation with the IP holders. Company management believes that close ties with the original franchise produce synergies and are necessary to create attractive content. On the other hand, IP-right owners are likely to look for game developers who understand the essence of the franchise, have a strong track-record and ability to monetize mobile games. The company pays royalties to the respective license owners, usually based on a fixed percentage of gross revenue from the game.

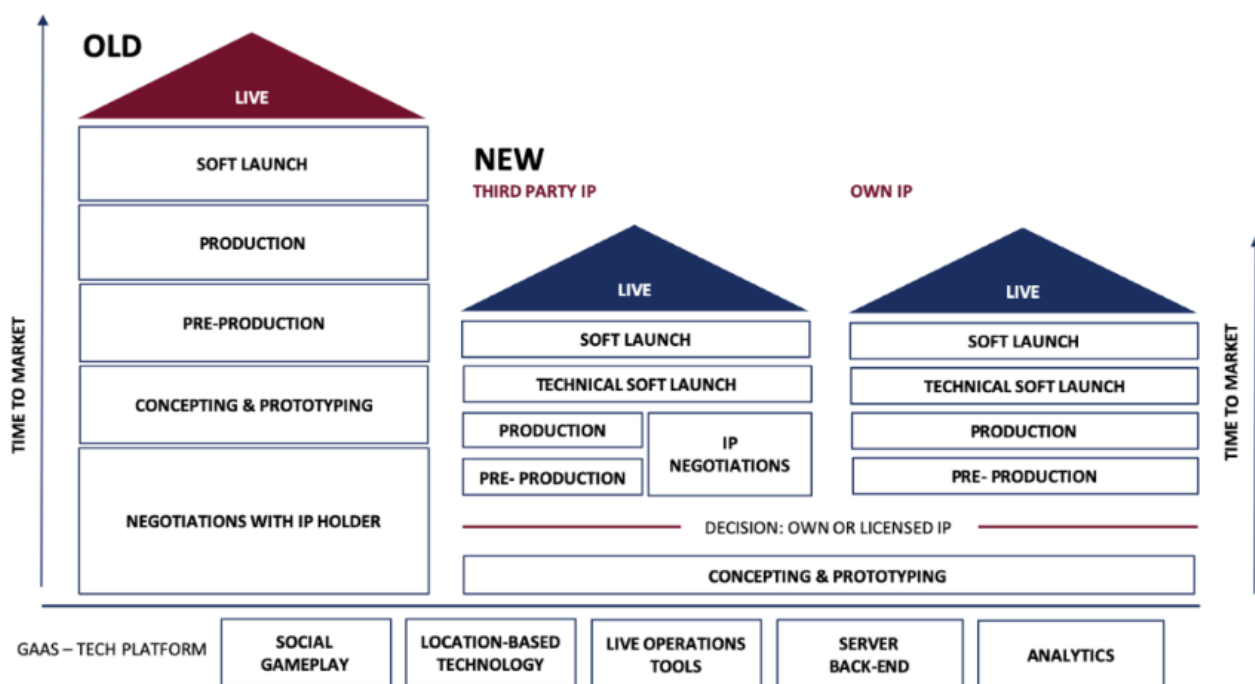
The Initial Production License Agreement with AMC was confirmed in 2014. Based on the agreement Next Games holds exclusive rights to develop mobile games based on the The Walking Dead –TV series throughout the world. Next Games has the right to determine the pricing policy of the game and has aimed to position it as a premium product. Furthermore, Next Games has signed three other license agreements for developing and releasing mobile games based on the original IP. Out of these games two are still in concepting phase and the to the games related IP's have not been revealed. The game furthest in development, Blade Runner Nexus, is a collaboration with Alcon Entertainment for a mobile game based on the Blade Runner franchise.

Development and release

Typically three phases in game development

Within the current operating model, as both a games developer and publisher, the company takes part in the development, marketing, and continuous updating of the game. The typical game development process can be divided into three phases: conceptualization, pre-production and production. Next Games has during early 2019 heavily renewed its operating model, with an essential part of the renewal being a decreased duration of bringing new games to the market.

Figure 4: Game development phases, old development model and renewed model (2019)



Source: Next Games

New operating model seeks faster time to market

In the old way of developing new games Next Games relied heavily on negotiations with IP holders to secure a license deal before beginning development of a new game. A drawback of this way of operation was the lengthy negotiations process while no actual concepting and development work, or limited such, was done until securing a license deal. Through the new operating model Next Games has emphasized the concepting of new games and game concepts as a first part of the game development process. This has for instance been implemented by allowing employees to spend a certain amount of time on developing new concepts and ideas, which then are evaluated on a firm level to determine which ideas will be further evaluated. A preliminary ratification process would typically be done within a few weeks. After deciding on pursuing a new idea for a game Next Games could then decide on attaching a third-party IP to the game or creating an in-house IP. Next Games focuses on third-party IP games and as such development of an in-house IP would likely occur only when no suitable third-party IP can be found and obtained.

In the pre-production phase a plan and schedule for creating the game are developed to assure pre-requisites for creating the final product. In the production phase the game is developed and tested through prototyping to reach the desired target audience. When developing games attached to a third-party IP the game is developed in conjunction with the license holders to assure an understanding of the final product between the involved parties. The team in the production phase acts separately from the company's other teams.

Game improvement using analytics, based on the GAAS-concept

After the development phase a game would typically first be released as a soft launch in selected test markets in order to gather data about the game. Based on the performance of a game in a soft launch phase the company could make modifications to the game before a full scope launch of the game. After the final release, data gathering continues and the company focuses on creating player commitment to the game, communicating with the gaming community and developing attractive new content to the game. Continuous updating is based on the GAAS-concept and implemented in coordination with license holders if one has been attached to the game. The developer of the game could in the soft launch phase potentially decide not to launch the game, although this is highly unlikely.

Marketing expenditures increase vastly when releasing a game

Simultaneously with a release, the company would initiate marketing campaigns to improve player acquisition. A sizeable amount of resources is invested in player acquisition and retention in the early stage of a games release. Marketing is done through various channels, also in co-operation with license holders. Marketing and user acquisition investments continue post launch but are typically scaled down after the initial launch investments. User acquisition investments for instance for The Walking Dead: No Man's Land have typically followed the TV-series cycle. The most important marketing impact metric for Next Games has been the return on investment (ROI), which is analysed on daily basis in order to optimize marketing efforts.

Games released to Apple App Store and Google Play

Mobile games are released for iOS- and Android operating systems through Apple App Store and Google Play. However, in Asia, third-party platforms, such as MyApp and Oppo App Store have a large market share due to Google Play restrictions. Next Games currently uses only Apples and Googles platforms. Moreover, platforms provide the market infrastructure for micro transactions, such as in-game purchases. Platform operators' share of generated revenue has typically been 30%. Next Games generates roughly half of its revenue from Apple's App Store and the other half from Google Play.

Current Games

The Walking Dead: Our World an innovative location-based AR mobile game

Next Games' latest globally launched game, The Walking Dead: Our World, was released in July 2018. The game is based on the American TV series The Walking Dead, where zombie 'walkers' have taken over the world. The game is a free to play location-based AR game, integrating Google Maps data into the gaming experience. Location is a core element of the gameplay, tying the gaming experience to the player's actual location. The game has no end and new content is constantly being developed. The tenth season of The Walking Dead –series was confirmed by AMC and is expected to air in October 2019.

Table 1: Overview of currently operating games and games in soft launch

	The Walking Dead: No Man's Land 	The Walking Dead: Our World 	Blade Runner Nexus 
Launch	October 2015	July 2018	In soft launch
Style	RPG/strategy game	Location based augmented reality adventure game	RPG/strategy game
Generated revenue (EUR)	> 100m	> 20m	-
DAU Q2/19	190k	145k	-
ARPPDAU Q2/19 (EUR)	0.22	0.37*	-

Source: Next Games, Evli Research. *(incl. ad-revenue from 11.6.2019)

Our World technical challenges

During the global launch of The Walking Dead: Our World, Next Games made significant marketing investments, specifically in the game's key markets in the US and Europe, aiming to acquire a million daily active users. During the first weeks the company succeeded in acquiring a significant number of users while meeting the company's expectations for the game's key operational metrics. As the number of players increased, the game faced technical problems which impacted the game's functionality and had a negative impact on the revenue development. Next Games reported that the technical challenges affecting the game were resolved towards the end of 2018.

The Walking Dead No Man's Land still performing well despite launch over three years ago

Next Games' original flagship game, The Walking Dead: No Man's Land, was released in October 2015. The game is based on the same American TV series The Walking Dead. The game is a strategic role-playing game, where players fight in dialogue-based combats, gather and develop characters and attend in a variety of challenges. Much like Our World, No Man's Land has no end, but new content stream is constantly developed, and the game follows the storylines of the original series on an episode level. The game has also received several awards, for instance the International Licensing Award for best product in digital apps. Despite having been launched over three years ago the game has retained a solid fan base and boasts an average rating of 4.6/5 on Google Play and Apple's App Store.

Blade Runner Nexus in soft launch

Blade Runner Nexus, which is based on the Blade Runner movie franchise, has been in development throughout 2018 and 2019 in cooperation with Alcon Entertainment, co-producer of the Blade Runner 2049 movie. The game entered technical soft launch in July 2018 and opened in three additional markets in January 2019. By the end of H1/19 the game had been open for soft launch in five countries. Next Games has focused a lot on optimizing and improving the game's first-time user experience and early retention, partly due to the characteristics of the game but likely also due to lessons learned from Our World. Based on the version in soft launch the game mechanisms share some similarities to The Walking Dead: No Man's Land.

Compass Point: West

Compass Point: West was released in March 2015. The game is not based on licensed franchise but the company's in-house developed Western-themed gaming world. The development and marketing of the strategy game has been discontinued.

Seeking to speed up game development processes, plenty of project in pipeline

Next Games continuously maintains relationships with key license holders and remains involved in discussions for potential new license agreements. A new license agreement was signed during the third quarter of 2018 with a leading entertainment IP holder for an "extremely sought-after license". Next Games announced during Q2/19 that it will be partnering with Netflix to create a mobile game based on the Stranger Things -series, which is the license agreement that was referred to in Q3/18. The company had a game project in collaboration with Universal Games and Digital Platforms, which had proceeded to production, but was terminated in January 2019. Additionally, Next Games has in particular during 2019 increased its focus on internal concepting and prototyping processes and has sought to use previously developed technology to reduce product development times. With the renewed game development process Next Games has also initiated multiple new projects during 2019. In addition to Blade Runner Nexus (in soft launch) and Stranger Things (pre-production), the company has nine concepts or prototypes under development either with or without third-party IP's attached to the games. It should be emphasized that of the latter nine projects, that are still in an early stage, all projects will very likely not reach launch.

The Walking Dead –franchise

The Walking Dead series renewed for tenth season

The Walking Dead is an American horror television series, shown on cable television channel AMC, and internationally distributed on Fox International Channels. The series premiered in the U.S. on October 31, 2010, after which nine seasons have been produced and the series has been renewed for the tenth season, which is expected to air in October 2019. The storyline is centred around sheriff's deputy Rick Grimes, who wakes up from a coma to realize a zombie apocalypse is happening. He becomes the leader of a group of people who attempt to survive in the post-apocalyptic world.

Number of viewers has declined some 50% since season seven

The series has been a success, getting nominated for several awards, such as the Writers Guild of America Award for New Series and the Golden Globe Award for Best Television Series – Drama. Consequently, The Walking Dead has been developed into a well-known media franchise including comic book series, spin-off television series *Fear the Walking Dead*, video games, audio books, board games and other products. The popularity of the series, as measured through season average number of views, has dwindled after season seven, with the average number of views dropping from 11.35m to 4.95m in season nine³. The ratings development remains somewhat twofold, as certain viewer's vote-based ratings show signs of improved ratings for season nine while other viewership statistics-based sources cite lower ratings.

Blade Runner –franchise

First Blade Runner movie from 1982 followed by sequel in 2017

Blade Runner is a neo-noir science fiction originating from the novel *Do Androids Dream of Electric Sheep?* from 1968. The book has been adapted into films, comics, a radio serial and a stage play. The first and most known film adaptation was Blade Runner. The original movie became a cult classic in the science fiction genre and many critics have acclaimed the movie as one of the best scifi movies in time. The movie was followed by the sequel *Blade Runner 2049* in late 2017. Although the movie likely didn't meet financial expectations the sequel was praised by many critics and it received five nominations at the Academy Awards and eight nominations at the British Academy Film Festival. No future plans for the franchise have been set but for instance Blade Runner director Ridley Scott has mentioned personal ideas for a third movie.

The movie *Blade Runner* is based in a dystopian Los Angeles in 2019, where genetically bioengineered humanlike replicants are manufactured to work on off-world colonies. The replicants that escape are hunted down by special operatives known as blade runners. The storyline focuses on a burnt-out blade runner Rick Deckard, who starts to question his attitude towards replicants and what it means to be human. The sequel *Blade Runner 2049* is set 30 years after the original film, starring a young blade runner discovering a long buried secret that leads him to track down long lost Rick Deckard.

Stranger Things–franchise

A Netflix science fiction horror web television series by the Duffer brothers

Stranger Things is a science fiction horror web television series by Matt and Ross Duffer, released on Netflix, with the first season premiering on July 15, 2016. The third season was released on July 4, 2019. Set in the fictional town of Hawkins, Indiana, during the early 1980s, Stranger Things tells the story of a group of children drawn into a series of supernatural events, beginning with the abduction of a young boy.

The series has been extremely well met

The series has since its release received praise from both media and critics and the third season of the show broke Netflix's viewership records, with 40.7m households having watched the show in its first four days, and having also received among other things 31 Emmy Award nominations.

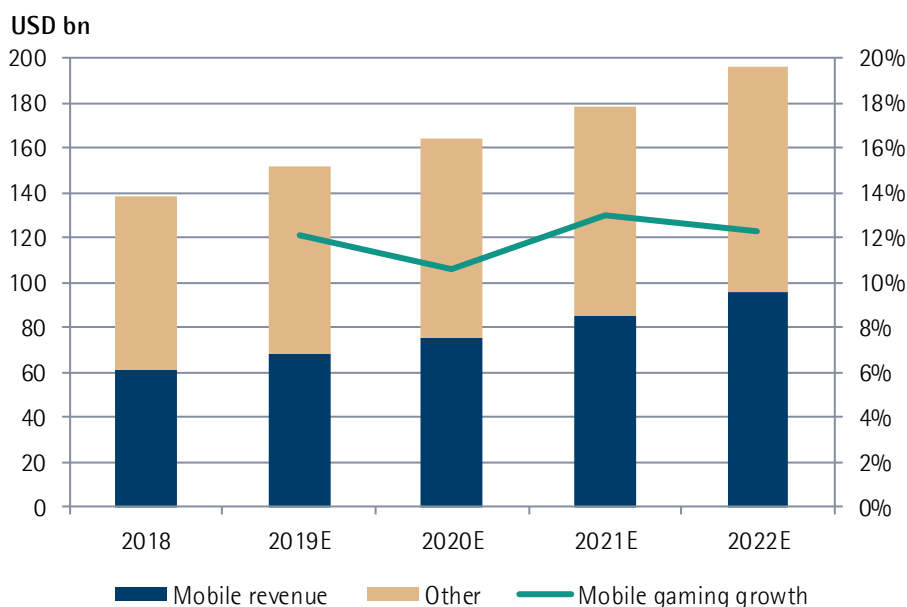
³ <https://tvseriesfinale.com/tv-show/walking-dead-season-seven-ratings/>
<https://tvseriesfinale.com/tv-show/walking-dead-season-nine-ratings/>

Market overview

Strong growth expected to continue at slower pace in mobile games market

The size of the global games market is expected to total some \$152bn in 2019, mobile gaming being the most lucrative segment, with tablet and smartphone gaming claiming 45% of total revenues. In the overall games market, a CAGR of around 9 % is expected for 2018-2022, but the mobile gaming market is expected to grow even faster, with a CAGR of around 11 % between 2018-2022. By 2022, mobile gaming is expected to make up around half of the total games market and reach \$95 billion in revenues.⁴

Figure 5: Forecasted gaming revenue

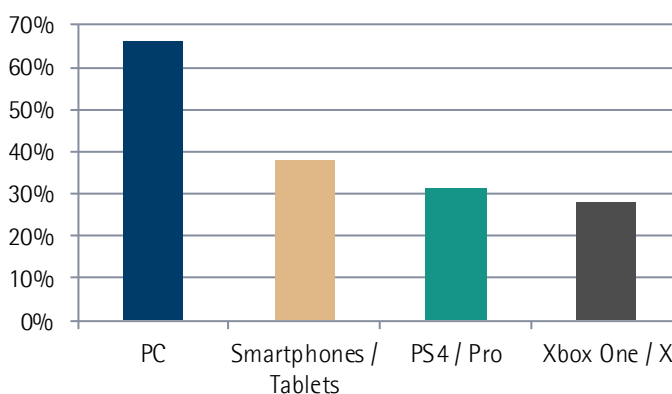


Source: Newzoo 2019, Evli Research

Interest toward mobile has been catching up but PC still preferred platform among developers

Based on a survey of game developers ahead of the Game Developers Conference 2019, PC remains the frontrunner in terms of developer support on different platforms. Mobile has been catching up and is the second most interesting platform among developers, with young technologies such as virtual reality and augmented reality headsets still well behind.

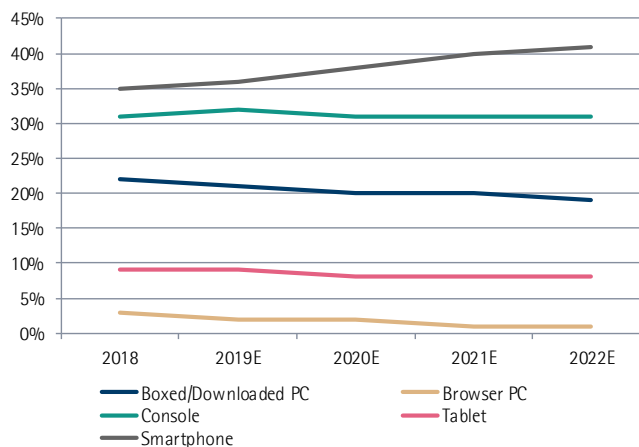
Figure 6: Preferred platform among game developers, 2019



Source: Statista 2019, Evli Research

⁴ Newzoo Global Game Market Report 2019

Figure 7: Gaming platform market share development



Source: Newzoo 2019, Evli Research

Asia has the largest market potential

Asia-Pacific is clearly the largest market, estimated to account for near 50% of all gaming revenues. China alone is expected to generate near 25% of all gaming revenues, approximately \$36.5bn in 2019. The U.S is expected to surpass China as the largest gaming market by revenues for the first time since 2015, driven by growth in console game revenues. Latin America is expected to be the fastest growing games market by region, driven by infrastructure improvements and increased appetite for gaming.

Table 2: Geographic distribution of gaming revenue, 2019

Region	Revenue	YoY growth	Population (M)	Online population (M)	Gamers (M)
North America	\$39.6B n	11.7%	366	308	197
Western Europe	\$25.7B n	12.3%	410	364	216
Eastern Europe	\$4.2B n	7.4%	352	274	156
Middle East and Africa	\$4.8B n	11.0%	1,755	658	360
Asia-Pacific	\$72.2B n	7.6%	4,130	2,081	1,331
Latin America	\$5.6B n	11.1%	657	435	253

Source: Newzoo 2019, Evli Research

Free-to-play -model dominant, mobile gaming accounts for majority of app revenue

The free-to-play -model has been proven as the winning model for mobile gaming as it lowers the threshold to start playing. In September 2019 all the top 50 Apple App Store's highest grossing games were free-to-download, while in-game goods were the primary source of income.⁵ Mobile gaming penetration globally in 2019 is seen at around 30%, compared to a share of online population of around 54% and smartphone users of around 41%⁶. Furthermore, in 2018, games accounted for 74% of consumer spend in the app stores, as their monetization is ahead of all the other apps.⁷

Time spent in mobile apps on the rise

In 2019, 3.2 billion people, or 41% of the total population used smartphones globally. By 2022 the number of users is expected to reach 3.9 billion⁸. In Indonesia, mobile users spent over 4 hours a day in apps. In mature markets like the US and Canada, the average user spent nearly 3 hours on a day in mobile apps in 2018. Gaming represents 10% of time spent, but the share has been declining, mainly due to increasing popularity of communications & social apps which made up 50% of total time spent globally in apps in 2018.⁹

⁵ Think Gaming, Top Grossing iPhone – Games, All countries

⁶ Newzoo 2019, Global Mobile Market Report

⁷ App Annie, State of Mobile report 2019

⁸ Newzoo 2019, Global Mobile Market Report

⁹ App Annie, State of Mobile report 2019

Chinese market breakdown

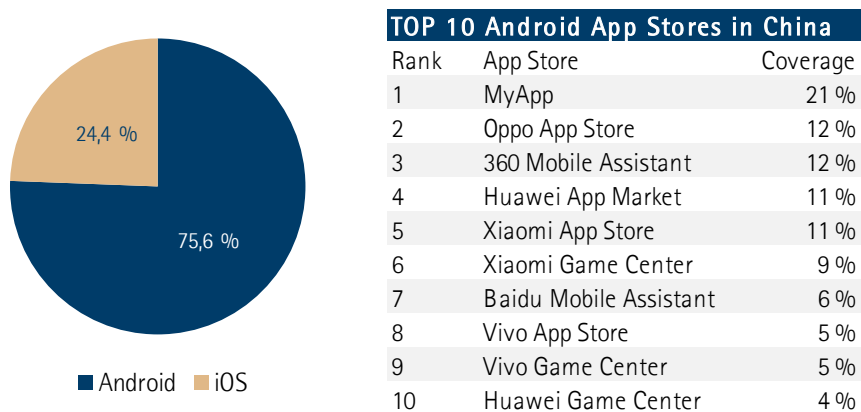
China the largest mobile gaming market along with the U.S.

There are over 780 million smartphone users in China, which is more than double that of the second largest market, India.¹⁰ China is also the largest games market in terms of revenue and alone accounts for one-quarter of global games revenues, \$37.8bn in 2018, with an estimated CAGR 2014-2021 of 13.9%. The Chinese mobile games market's revenue was \$4.5bn in 2014, in 2019 the revenue is estimated to be \$22.6bn and in 2021 \$29.4bn.¹¹

China's new gaming regulations led to a game approval freeze

Due to restructuring of gaming regulations, China suspended all new game approvals in March 2018. A new regulatory body was formed as part of the government's bid to monitor and control the content the public has access to. The suspension led to a situation where no permits to release games were given. The suspension ended in December 2018, but a massive backlog remained and developers have had to wait for the current backlog to be cleared before being able to submit new games.

Figure 8: China – Operating system market shares, top Android app stores, October 2018



Source: Newzoo 2018, Evli Research

Android apps served through fragmented app store market in China

The Google Play store is not openly available in China, as the platform has been blocked by Chinese authorities. Google Play is not pre-installed on Android devices sold in China, but they will instead most likely come with other app stores, likely provided by a Chinese company. Google Play does hold a small share of the Chinese market as consumers can access the platform indirectly through circumvention methods (including VPN). In the absence of Google Play, independent Android stores serve the fragmented market with over 500 million Android users. As a result, to reach 80% of the market, a game has to be released on at least seven stores in China.

Currently not present in China

With roughly a quarter of global gaming revenue coming from China, it is apparent that the Chinese markets offer good revenue generation potential for companies in the mobile gaming industry. Next Games is currently not commercially present in China. The company plans to expand the game offering to new countries as well as strengthening the presence in countries where the company's games are already being sold and China has been mentioned as a possible new market opening. The blocking of Google presents some challenges in particular for location-based games such as The Walking Dead: Our World, which relies on Google Maps data.

Different value chain affects profit making possibilities

In the mobile gaming industry the Chinese market differs substantially from Western countries and the market entry requires a lot of planning and preparations. The differing value chain affects profit making possibilities in the Chinese mobile gaming market, with

¹⁰ Newzoo China Mobile Market Update Q3 2018

¹¹ Newzoo Global Games Market Report, October 2018

a larger difference for Android-based games due to the blocking of Google Play. In China, non-Chinese Android developers are required to publish content using a Chinese third party as a middleman, which is not required for iOS.

Billing systems less standardized

Another key difference in China is the role of teleoperators/carriers in billing. Whereas billing in Western countries are carried out through credit card payments in the app store, in China payment by SMS and through third party systems are more common. Some of the main actors in distribution of mobile games provide an array of services including billing systems, usually at the cost of a larger share of a games revenue.

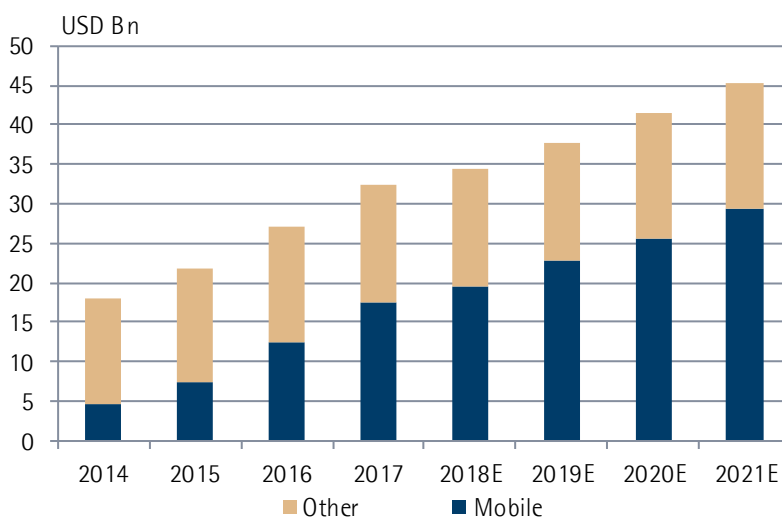
Developers share of game revenue much smaller

Typically, in Western countries a games developer can publish a game directly to a distribution channel, possibly limiting the number of revenue sharing parties to one, and the developers share of revenue is typically around 70 % of gross revenue. In China the revenue cut taken by publishers, distributors, and payment solutions providers leaves the developer with a much smaller part of the revenue. Depending on if the app store is of open or closed type, the developer’s share of revenue can be in the range of 20-30 %¹². With the good scalability in the mobile games market the enormous revenue volumes in China still make the markets attractive, despite the lower share of revenue being accumulated.

Intellectual property rights protection more difficult

The more challenging environment for mobile game developers in China can also be seen in the protection of intellectual property rights. With the difficulties inherent in establishing a partnership with a local Chinese middleman to publish Android content, a developer could choose to only publish content on the iOS App Store. If the game is successful it is highly likely that the game will be pirated to Android stores, which could tarnish the image of the IP and result in a loss in sales. As a relatively small company, Next Games may not have the resources to protect an IP in China. However, as the company produces games based on licensed franchise content, with the content owner usually being a large corporation, the owner will have much stronger possibilities as well as good incentives to act to protect the IP-rights.

Figure 9: China – Revenues from gaming segments



Source: Newzoo 2018, Evli Research

¹² Neogames Finland Assn. / Nordic Game Institute – China Mobile Games Market 2016

Competitive landscape

Most large competitors develop games on multiple platforms

The international gaming market is relatively fragmented with large game studios releasing games across all or most platforms (Activision Blizzard, Electronic Arts, Nintendo etc.) and a few larger developers who create games mainly or exclusively on mobile (Supercell, Zynga etc.). With the low barrier to entry in developing mobile games the market also contains a plenitude of small developers with only one or a limited number of apps.

App stores flooded with mobile games

In 2018 there were a total of 2.0 million applications in the App Store¹³ and 2.6 million apps in Google Play¹⁴. In January 2019 a total of 1,696 new mobile games were submitted to the App Store¹⁵. When comparing mobile games to games on PC and consoles the amount of resources spent on developing a game are normally considerably lower. The competition in mobile games is as such much tougher and the barriers to entry are low. However, the licensed games market does exhibit some barrier to entry, as successful references in the area should provide a clear edge for established companies.

Table 3: Top mobile companies and apps by revenue and downloads (July, 2019)

Top Companies					
By downloads			By Revenue		
Rank	Company	Apps	Rank	Company	Apps
1	Facebook	63	1	Tencent	683
2	Google	338	2	NetEase	349
3	Voodoo	152	3	Supercell	32
4	Good Job Games	24	4	Netmarble	180
5	ByteDance	79	5	Activision Blizzard	68
6	Outfit7	71	6	Playrix	10
7	Tencent	683	7	BANDAI NAMCO	304
8	SayGames	34	8	Giant network	67
9	Alibaba Group	251	9	Line	195
10	TabTale	660	10	Zynga	117

Top Apps					
By downloads			By Revenue		
Rank	Company	App	Rank	Company	App
1	Facebook	Facebook Messenger	1	Tencent	Honour of Kings
2	Facebook	Facebook	2	Tencent, Activision	Candy Crush Saga
3	Facebook	WhatsApp Messenger	3	mixi, Xflag China	Monster Strike
4	ByteDance	Tik Tok	4	Supercell	Clash of Clans
5	Facebook	Instagram	5	Tencent	Game for Peace
6	Snap	Snapchat	6	NCsoft, Gamania	Lineage M
7	Bottle Flip 3D	Tastypill	7	Fantasy Westward Journey	NetEase, 37games
8	aquapark.io	Voodoo	8	Niantic	Pokemon Go
9	Stack Ball	Azur Interactive Game	9	SoftWorld, Sony, bilibili, Netmarble	Fate/Grand Order
10	Free Fire	Sea	10	InterActiveCorp (IAC)	Tinder

Source: AppAnnie, Evli Research (*mother entity as publisher for certain apps*)

Game success highly skewed

While popularity among all apps is strongly skewed towards a few international favourites, so is financial success. In the US, the top 10 grossing games generated 25% (iPhone) to 36% (iPad) of revenues generated by the top 1,000 games. For Google Play this share is 27%¹⁶. Gaming appears to be the best at monetizing among all application categories. While some 50 % of apps are games, 76 % of mobile application revenues in

¹³ <https://www.statista.com/statistics/276623/number-of-apps-available-in-leading-app-stores/>

¹⁴ <https://www.statista.com/statistics/266210/number-of-available-applications-in-the-google-play-store/>

¹⁵ <https://www.statista.com/statistics/258160/number-of-new-apps-submitted-to-the-itunes-store-per-month/>

¹⁶ <https://newzoo.com/insights/articles/us-mobile-games-market-makes-247-companies-more-than-1m-a-year/>

2018 went to game companies. Moreover, some gaming companies have found persisting ways to remain among top grossing game companies, e.g. Electronic Arts has built success on licensed sports games. On the other hand, some free games have been difficult to monetize, but increasing tools for advertising on mobile channels and optimization of user acquisition should facilitate leveraging popularity.

Table 4: Top grossing iPhone games in the US (retrieved 19.9.2019)

Top Grossing Iphone Games				
Rank	Game	Publisher	Daily revenue (USD)	Daily new installs
1	Pokemon GO	Niantic	2,127,332	18,532
2	Candy Crush Saga	King	1,594,832	15,077
3	DRAGON BALL Z DOKKAN BATTLE	BANDAI NAMCO Ent.	1,260,904	14,312
4	PUBG Mobile	Tencent	739,774	16,576
5	Toon Blast	Peak Games	610,936	17,692
6	Clash of Clans	Supercell	376,088	17,831
7	Game of Thrones: Conquest	Warner Bros	364,805	13,681
8	Homescapes	Playrix Games	359,402	17,125
9	ROBLOX	Roblox Corporation	314,304	17,099
10	Slotomania Vegas Casino Slots	Playtika	250,198	14,416

Source: ThinkGaming, Evli Research

Licensing vs. in-house brand development

Licensing IP rights of popular mass entertainment franchises seems to offer a shortcut to reaching wider audiences, but monetization is still largely dependent on game developer's ability to create attractive content and gaming experiences and spending on user acquisition is a necessity. While Next Games holds exclusive rights to develop mobile games based on The Walking Dead TV series, another gaming company Scopely, has released a game The Walking Dead: Road to Survival, which is based on the graphic novel version of the franchise. Thus, IP holders could race game developers against each other and split the franchise into a number of games. It is hard to determine whether the two games cannibalize each other or increase the franchise's popularity. Moreover, many IP holders have significant resources that can be used for game development. At least some IP holders are quite likely to choose to develop their own mobile games. Therefore, external developers must have an attractive offering for IP holders.

Market is transitioning towards new genres

Casual games are still top earners in the global mobile games market. However, the casual games market is getting saturated and new more complex and immersive experiences have emerged. Increasingly mobile game releases are expanding into genres like MOBA (Multiplayer Online Battle Arena), shooters, strategy games and MMOs (Massively Multiplayer Online). Smartphones have become more powerful over the last few years and they are now powerful enough to handle experiences that were previously only possible on PC and console. Many of the above mentioned genres are also competitive, featuring PvP (player-versus-player) modes, which create opportunities for tournaments and ultimately fosters the esports scene.

New platforms, new technologies

The mobile games market changes all the time and game developers need to be able to adapt accordingly. In 2016 Niantic released the Pokemon Go -game, which utilizes augmented reality technology, where the view of the real-world environment is augmented by computer generated elements. Since that many more companies have released AR games, including Next Games' The Walking Dead: Our World. The latest AR game announcements are Rovio's Angry Birds AR: Isle of Pigs and Niantic's Harry Potter: Wizards Unite, both expected to launch during 2019. Virtual reality (VR) devices are expected to have a significant impact on the gaming industry, and early adopters of the technology can shake the market. Some brands have also released dedicated gaming smartphones, like Razer Phone 2, ASUS ROG Phone and Xiaomi Black Shark.

Strategy

Services to cover full lifecycle of mobile games

Next Games strategy at large revolves around developing long lasting free-to-play mobile games and content based on well-known entertainment franchises. Services are aimed at covering the full lifecycle of mobile games, from development to publishing and continuous live operations. Next Games has four key strategic initiatives: 1) Building on top of existing game mechanics and technology, 2) efficient live operations with automation, shared tools, and best practices, 3) robust structure for player and market data-driven decision making, and 4) continuous exploration of new opportunities and technologies.

Previously developed technology to enable more efficient future game development

The strategic initiatives revolve around utilizing technological capabilities and data-driven processes in developing new games and updating and enhancing existing games. At the core of development is Next Games' technology platform, which has been developed and continuously improved during the company's existence. The technology platform enables more efficient development processes and shorter time-to-market, as game mechanisms and content from previously developed games and generic features can be utilized in creating new games. A good example of this is the platform the company has developed for utilizing Google Maps for location-based games as the time spent on development of a new game using similar technology could be shaved down by months compared to the development time of Our World. Next Games further seeks to make use of proven practices in games throughout its games portfolio and has been investigating opportunities of utilizing AI and machine learning to further enhance live operations and advertising efficiency. Next Games further emphasizes the use of data in making decisions regarding for instance updates to games and has developed its own analytics platform.

Geographical and product expansion opportunities

Next Games is also continuously looking for new opportunities to expand operations. One means of expansion has been geographically, as the company has opened new markets in Asia during 2018. Although Next Games' games are already available in over 150 countries, opportunities to expand presence locally still exist and the main market for mobile gaming, China, also presents an avenue for possible future expansion. Next Games also announced a new development project in Q4/18 for a new game concept, that is also partly driven by a desire to reduce time-to-market of games in a market where trends and concepts can rapidly impact on consumer preferences. Upcoming game projects could also show expansion demographically, as the current live games are oriented towards a select audience and for instance female gamers remain somewhat underserved.

Plan to publish at least one new game per year

Next Games does not give numeric financial guidance or long-term financial targets due to uncertainty related to the materialisation of revenue streams from games. Management believes that the company's development will follow general market trends. The company plans to publish at least one new game per year.

Financial performance

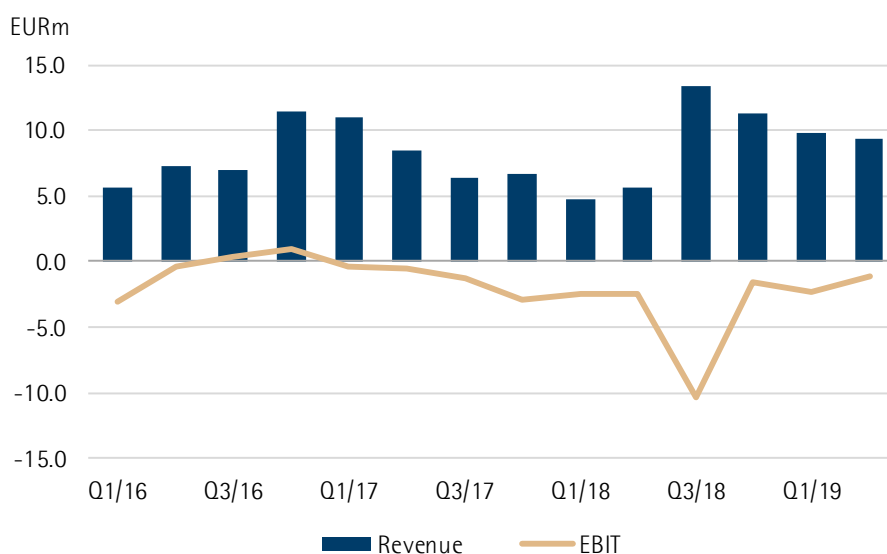
2018: Earnings burdened by Our World marketing and user acquisition expenditure

Next Games' revenue in 2018 amounted to EUR 35.2m, growing 8.5% y/y. Revenue growth was affected by declining revenue from The Walking Dead No Man's land, but the launch of The Walking Dead: Our World during Q3/18 helped boost revenue. Profitability fell substantially during 2018, with EBIT at EUR -16.9m compared to EUR -5.1m in 2017. Profitability was affected by the launch of Our World in the third quarter. Significant launch related marketing investments were made, as is usually typical when launching new games. Although the launch initially proved successful, technical challenges were faced as the number of users increased, due to which the company opted to scale back on further marketing expenses. As a result of the challenges the number of active users decreased, and revenue fell below expectations. At the time Next Games estimated the payback period of the launch investments to have at least doubled from the original 120-day timeframe.

H1/19: Revenue growth and realization of cost savings

Revenue in H1/19 amounted to EUR 19.2m, with y/y growth of 83%. Next Games has not disclosed revenue per game but the DAU and ARPPDAU figures imply a slightly larger revenue generation from Our World. EBIT during the first half of the year amounted to EUR -3.5m compared to EUR -5.0m in H1/18. The adjusted operating result¹⁷ amounted to EUR -1.8m (H1/18: -4.1m). As a result of the cost savings program initiated during 2018 Next Games was able to reduce its monthly fixed costs to EUR 1.2m, in line with the company's earlier communicated target level of EUR 1.1-1.2m, from the H2/18 monthly average levels of EUR 1.7m.

Figure 10: Next Games revenue and operating profit development



Source: Next Games, Evli Research

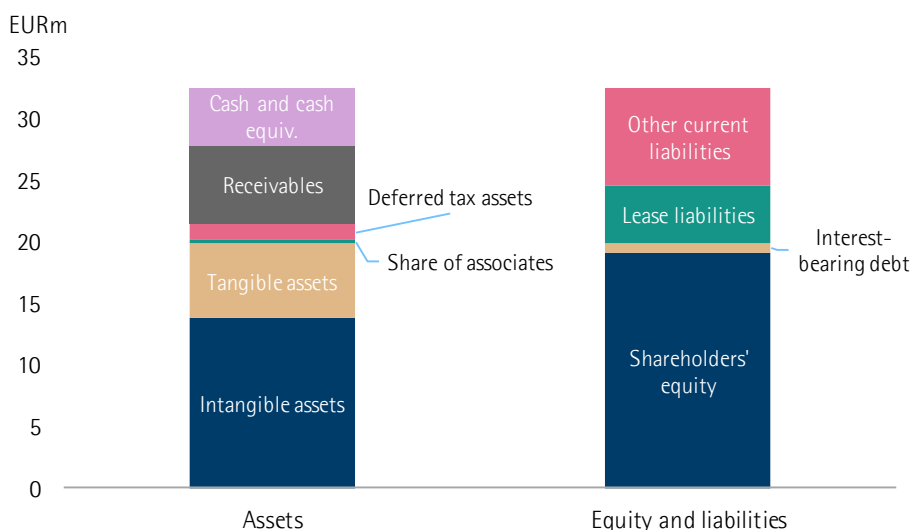
¹⁷ EBITDA adjusted for capitalized product development depreciation and share-based payments (IFRS 2)

Balance sheet

Cash position strained by losses in 2018

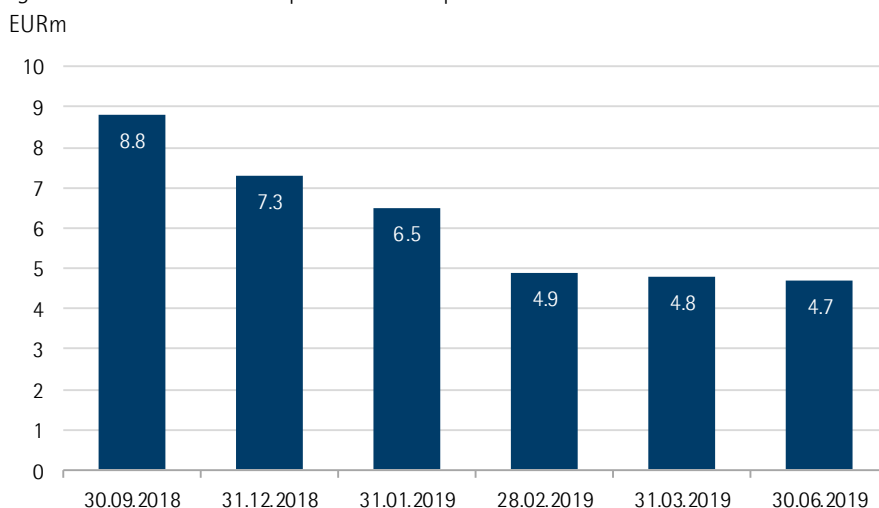
Due to the labour-intensive business model Next Games operates with a relatively light balance sheet. Main items in intangible and tangible assets consist of capitalized development costs and IFRS 16 imposed premise leases respectively. Goodwill amounted to EUR 3.3m. Next Games's cash and cash equivalents at the end of H1/19 amounted to EUR 4.7m. Next Games' financial strength decreased considerably in 2018 due to the weaker earnings, driven in particular by the launch of Our World, given that the company's cash balance amounted to EUR 26.4m at the end of 2017 post-IPO. In addition to its cash balance Next Games has an unused credit limit of EUR 5m. Next Games announced during H2/2018 that it is considering options to strengthen its financial status and during Q3/2019 announced an EUR 8m rights offering. Next Games is striving to remain cash flow neutral and the need for the additional financing will come in to question when a possibility for a larger investment to secure future cash flows arises, for instance at the launch of a new game.

Figure 11: Next Games balance sheet composition (H1/2019)



Source: Next Games, Evli Research

Figure 12: Next Games cash position development



Source: Next Games, Evli Research

Cost structure

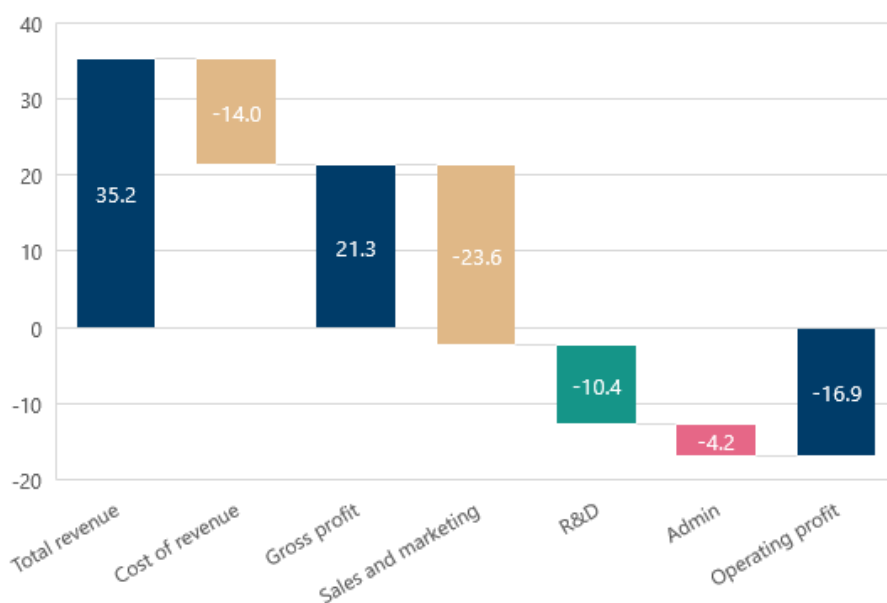
Sales and marketing main source of expenses, EUR 23.6m in 2018

In conjunction with the transition to IFRS reporting at the end of 2018 Next Games renewed the reporting structure of its profit and loss statement, now presenting expense classification based on function instead of classification based on nature. Next Games reports cost of revenue along with costs for three separate functions: R&D, Sales and marketing, and Admin. Cost of revenue includes platform commissions, royalties to license holders, and server expenses. Sales and marketing has been the largest source of expenses for Next Games, arising from marketing and user acquisition expenditure, along with personnel expenses. Sales and marketing expenses in 2018 amounted to EUR 23.6m. R&D expenses amounted to EUR 10.4m, mainly arising from personnel expenses and purchase of external development services. EUR 5.0m in R&D expenses were capitalized on to the balance sheet. Admin expenses amounted to EUR 4.2m.

Below we have summarized the main on-going third-party expenses related to a published game, of which the three first items are included in cost of revenue and user acquisition costs in Sales and marketing. The gross profit consists of revenue ex third-party expenses related to published games, i.e. platform commissions, royalties, and server costs, along with license related depreciations. User acquisition and marketing costs are not included in the gross margin.

- Commission fees to publishing platforms
 - Fixed at typically around 30 % of generated revenue
- License costs to IP owners
 - Mostly fixed to revenue, likely to include a fixed base component. Values not disclosed
- Server costs
 - Fixed to server utilisation, largely variable but not fixed to sales
- User acquisition costs
 - Non-fixed, seasonal. Spending optimized to acquisition efficiency. Costs higher for instance around Christmas and game launches.

Figure 13: Operating profit breakdown, EURm (2018)



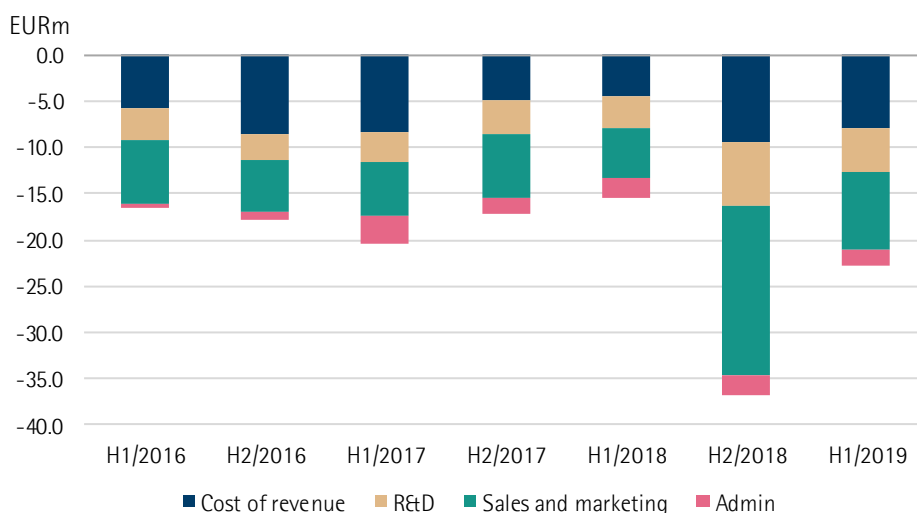
- Cost of revenue:** Mainly fixed costs, majority platform commissions
- Sales and marketing:** Mainly variable marketing and UA costs (2018: ~90%)
- R&D:** Personnel expenses, external development services, partly variable
- Admin:** Largely fixed general expenses

Source: Next Games, Evli Research

Significant increase in expenses in H2/18 due to launch of Our World

2018 amounted to a particularly hefty year expense-wise, driven by the launch of Our World in H2/2018, with cost of revenue and sales and marketing expenses combined amounting to 107% of revenue. The change in the cost structure is highlighted by figure 13, with the sales and marketing expenses increasing by some 237% from H1/2018 to H2/2018. The expenses were mainly incurred during the launch period in Q3/2018 and both No Man's Land and Our World were reportedly operated profitably on EBITDA level towards the end of the quarter. Highly elevated levels of marketing investments are typical around games launches and highlights the possible fluctuation in results from one quarter to another.

Figure 14: Cost development



Source: Next Games, Evli Research

Licensed IP games increase variable costs, could lower user acquisition costs

Next Games' focus on licensed IP games affects the potential for scalability in earnings. Competitors focusing on games based on in-house IP are not subject to the same costs relating to license payments to IP owners. The focus on licensed IP games does however offer potential advantages in player acquisition, as marketing activities by the IP owner increase brand recognition, which should serve to support awareness of related products such as mobile games based on the brand.

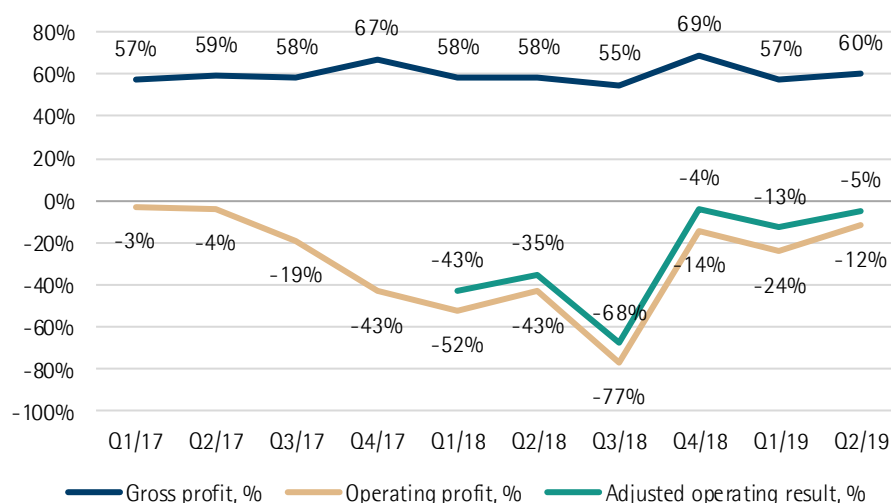
Gross margin generally between 55-58%, with the fourth quarter being an exception

Figure 15 showcases the quarterly gross profit and adjusted operating profit margin development. The gross profit consists of revenue ex items included in cost of revenue. As the thereto related expenses are mainly fixed to revenue, the gross profit margin should show only little fluctuation. However, in the fourth quarter the gross profit has spiked during the last two years due to issued credits in accordance with the balancing out of utilized volumes with certain providers. According to management the run rate for the gross profit margin is expected to be around 55-58%.

Margins developing positively from Q4/18 but still in the red

Next Games has seen operating profit margins falling already since Q3/17. The margins have been impacted by declining No Man's land revenue in combination with growing game development costs. Q4/2018 saw the trend reversing due to the higher revenue from two live games compared to one in the previous year and a normalization of Our World marketing investments. The adjusted operating result margins have still remained negative due to development costs relating to new game projects.

Figure 15: Next Games' margin development



Source: Next Games, Evli research

EUR 6.5m annual savings in fixed costs expected from cost savings program

Next Games initiated a cost savings program in early 2019 to improve operational efficiency and consultation proceedings in conjunction with the savings program. As a result of the measures taken the company's headcount was reduced from 143 at the end of 2018 to 108 employees at the end of the first half of 2019. The annualized savings in fixed costs (excl. marketing investments) are expected to be approximately EUR 6.5m compared to H2/18 monthly average levels. A majority of the savings stem from reductions in employee expenses and use of external product development services due to the termination of the NBCUniversal project while smaller savings were also made in other projects. The full benefit of the savings is expected from Q2/19 onwards. Next Games was successfully able to bring down the monthly fixed cost levels to EUR 1.2m in Q2/19, having fully implemented the cost savings program, in line with the in Q1/19 communicated target of level of EUR 1.1-1.2m.

Table 5: Next Games' cost savings program overview

EUR ,'000's	Costs on a monthly level				Savings		
	H2/2018	Q1/2019	Q2/2019	Q2/2019*	Realized Q2 monthly	Monthly level target for FY	Annualized target
Research & development	320	70	40	55	-280	-265	-3,180
Employee expenses	830	820	660	700	-170	-130	-1,560
Other fixed costs	550	500	480	400	-70	-150	-1,800
Total	1,700	1,390	1,180	1,155	-520	-545	-6,540

*Target

Source: Next Games, Evli Research

Rights offering

EUR 8m rights issue to fuel growth investments

The Board of Directors of Next Games resolved on a rights offering of approximately EUR 8 million on the 25 September 2019, with pre-emptive subscription right for existing shareholders. The proceeds from the offering are intended to be used to strengthen the balance sheet and according to the company's strategy, enable future investments such as product development and marketing of new products as well as be used for license payments and other general corporate purposes.

Dilution impact of offering some 50%, if fully subscribed for

In short, the offering will entitle shareholders (record date 27 September 2019) to one subscription rights per share owned, with two subscription rights entitling to subscription of one new share. The subscription price is EUR 0.86 per share. Next Games aims to raise gross proceeds of EUR 8m in the offering. The subscription period commences on 2 October 2019 at 9.30 a.m. Finnish time and expires on 16 October 2019 at 4.30 p.m. Finnish time. As a result of the offering, if fully subscribed for, the number of shares will increase by approx. 50% from 18,610,270 to 27,908,700.

Subscription undertakings corresponding to 100% of offering given

it is worth noting that due to existing undertakings to subscribe shares by main shareholders, the rights offering should essentially already be considered to be fully subscribed. Existing major shareholders Jari Ovaskainen (~16.6% ownership) and AMC (~5.2% ownership) have each committed to subscribe for their pro-rata shares of the offer shares and under certain conditions undertaken to subscribe for offer shares that may not be otherwise subscribed for with a maximum of EUR 4 million, including pro rata shares.

Essential part of turnaround project

In our view the rights offering (or an alternative form of additional financing) was more or less unavoidable for Next Games in order to fund upcoming growth investments. Next Games has since the last quarter of 2018 been running a three-phase turnaround project, with the first step to stabilize cash flows and balancing the company's cost structure, with its long-term goal to remain cash flow neutral. The second phase, rebuilding the product development pipeline, is still underway. The final phase for the turnaround project is securing additional funding for future investments. Although the planned cost savings took effect during Q2/19 the company's cash position along with expected near-term cash flows would in our view not have been enough to cover product development investments and costs relating to the launch of new products, such as the anticipated launch of Blade Runner Nexus. If fully completed, the rights offering will put Next Games in a much better position to fund growth investments.

Estimates

Weak predictability due to dependence on low visibility pipeline

Due to the unpredictable nature of revenue generation of Next Games, as well as other growth-oriented mobile game developers, a precautionary remark is warranted. Our estimates for the coming years rely on launches of new games, assuming Next Games' target of launching at least one game per year, of which very little are known. The possibility that a project under development may end up not being launched also exists, albeit with a very low likelihood of such an event occurring. With currently only two live games the predictability of future revenue is as such weak, limited further by a low visibility into the development pipeline.

Estimate revenue growth of 7% in 2019

We estimate a revenue of EUR 37.8m in 2019, at a growth of 7% y/y. Next Games has in its business outlook for 2019 stated that it seeks moderate revenue growth in 2019 compared to 2018, given that NML and Our World maintain their current revenue levels and the target to launch one game per year. Our estimates assume that Blade Runner Nexus will be launched in the end of 2019, and that the game will contribute with less than EUR 1m revenue in 2019. We expect Our World to contribute that largest share of revenue driven by solid improvements in ARPDAU. Retention issues and technical issues have affected the games DAU, which has seen a steady decline since launch. We expect to see an evening out of the decline due to company efforts towards improving retention and player experiences but note a risk of a further near-term decline in DAU. NML's DAU has also continued a slight, steady decline, although a similar decline in gross bookings has been partly offset by a higher ARPDAU.

Profitability expected to remain negative in 2019

Next Games has undergone a cost savings program, aiming to achieve savings in salaries, administrative costs, and product development costs of EUR 6.5m on an annual basis compared to the second half of 2018 and strives to be cash flow neutral in the longer term. The second quarter of 2019 saw Next Games achieving the target level and the profitability improving as a result of the savings. We expect an adjusted operating result in 2019 of EUR -3.3m (2018: -13.8m). We expect the relative profitability to decrease slightly at the end of the year given the assumed launch of Blade Runner Nexus and therefore increased sales and marketing costs. We note that the fourth quarter each year is typically good in terms of revenue for publishers due to seasonal spending around Christmas, while inflated UA costs may have a dampening impact on profitability. Next Games has also historically posted higher gross profit margins during Q4 due to for instance credits issued from balancing of used volume with certain providers.

Estimates 2020-2021

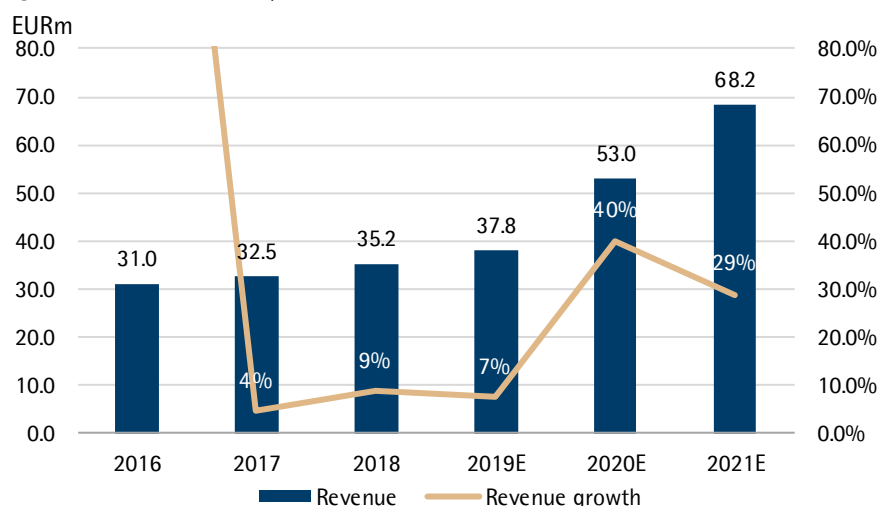
Assume launch of three new games during 2020-2021

In our estimates for 2020-2021 we assume the launch of three new games during the period. Next Games announced during Q2/19 that it has partnered with Netflix to create a mobile game based on Netflix's Stranger Things -series, with the intention of launching the game in 2020. We have assumed launch in the latter half of 2020. We estimate two game launches in 2021, one game around mid-2021 and one in the latter half of 2021. With the revised operating model and the intentions to seek a faster time to market of new games, we expect Next Games to seek a denser launch timetable assuming a permissive financial situation. Our assumptions for the operational metrics of the games to be launched are quite conservative in comparison to the two current live games. In our view NML has been a success story for Next Games, while Our World has so far failed to meet expectations and several things have not gone quite as planned. Although Next Games should for coming launches be equipped with a good set of lessons learned, noting that issues were also partly external and Our World's complexity as a game, Our World's operational metric performance in our view provides a fairer benchmark given the uncertainty relating to new launches. It should however be noted that upside potential in mobile games can be significant and NML has during its peak generated some double the gross bookings we have estimated for the first year of coming game launches.

Expect sales growth to pick up during 2020-2021

We estimate a sales growth of 40% and 29% in 2020 and 2021 respectively and revenue to reach EUR 68.2m in 2021. For NML we assume a continued steady decline but for the game to still have a fairly decent gross bookings contribution in the coming years given that the game was launched in 2015. For Our World we take a conservative stance in assuming that Next Games is not fully able to recover from the first-year challenges and we expect the gross bookings to decline during 2020-2021. Although the game has been able to generate a commendable ARPDau, more worryingly the DAU figures have declined to levels below those of NML. We note that due to the issues with the game marketing efforts have been scaled down and Next Games has a sizeable team working on improving the games appeal to users. It is not uncommon that mobile games have started to show growth in their second live year or later, after improvements to the game and more attractive content has been published. As such we see clear upside potential to our estimates for Our World but without signs of such an event occurring, we opt to take a careful stance in our estimates.

Figure 16: Revenue development and estimates

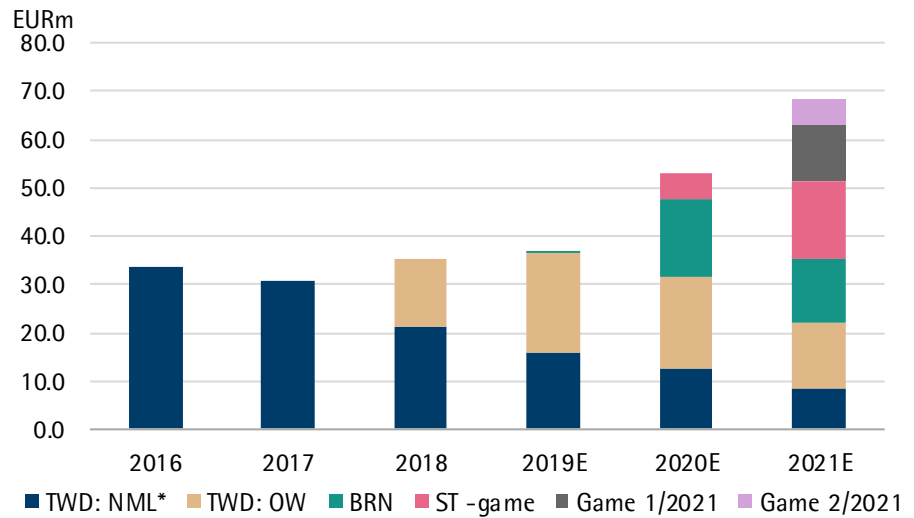


Source: Next Games, Evli Research estimates

Yet unlaunched games estimated to account for a larger share of gross bookings by 2021

For the games that we assumed to be launched during 2019-2021 we have estimated a peak in gross bookings during the first 12 months live, followed by a steadily declining trend, with relevant gross bookings contributions during some three years. In 2020 we expect Blade Runner Nexus to be the main contributor of the new games and expect new games to account for some 40% of gross bookings. In 2021, with four expected new games having been launched compared to the two current live games, we expect a gross bookings contribution from new games of some 67%.

Figure 17: Gross bookings development and estimates

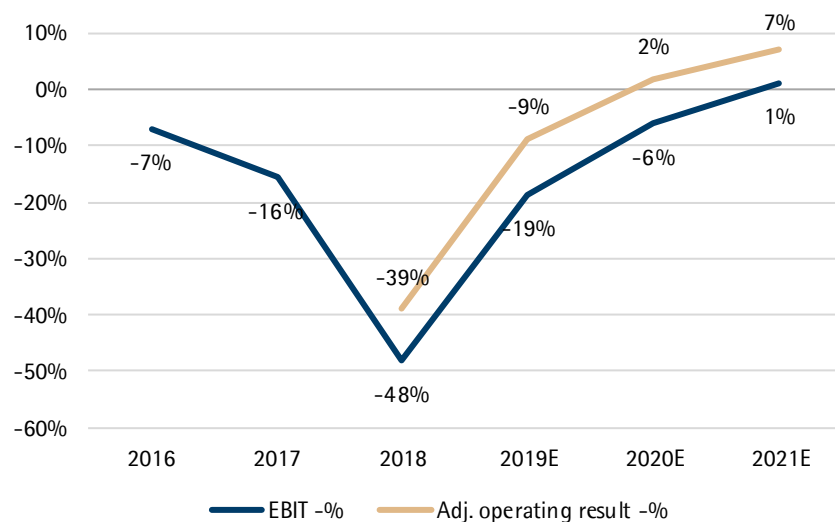


Source: Next Games, Evli Research estimates. *2016-2017 includes CPW gross bookings

Expect a barely positive EBIT-margin in 2021

We expect Next Games profitability to remain weaker in the near-term and improve gradually towards 2021, by which we expect the company to achieve a barely positive EBIT-margin. An essential element of improving the company's profitability lies in the number of live games generating revenue. At the end of Q2/19 46% of the company's employees were working on new projects and the number of employees working on Our World was also likely somewhat larger than what Next Games had originally planned due to the challenges faced. Once a game goes live the number of employees working on a project can be gradually scaled down, thus enabling more profitable operations of individual games. Currently development costs have chewed on the profitability despite profitable live game operations. As the company is still seeking to grow the product development costs are proportionately higher and once the company has been able to launch and maintain a portfolio of several games the proportional product development will start to decrease.

Figure 18: Margin development and estimates



Source: Next Games, Evli Research estimates

A lower proportionate share of sales and marketing costs expected to improve profitability

The other major determinant of profitability is the company's investments in sales and marketing. The majority of the costs typically relate to user acquisition. In general, the costs are exceptionally high in proportion to the generated revenue when launching new games and will move towards a stabilized level after a while of being live but may vary depending on growth opportunities and increased seasonal spending and UA cost inflation. For instance, in 2018, when Our World was launched, the share of total sales and marketing costs (not comparable to user acquisition costs) amounted to 67% of revenue, while the same figure in the previous year was 39%. With fewer live games the launch of a single new game will proportionately burden profitability more than if the company has a larger portfolio of live games. As such, in the longer term we expect the proportionate share of overall sales and marketing expenditure to revenue to decline we assume a stabilized level in between 35-45%.

Table 6: Estimates summary and key operational metrics assumptions

Next Games	2017	Q1/18	Q2/18	Q3/18	Q4/18	2018	Q1/19	Q2/19	Q3/19E	Q4/19E	2019E	2020E	2021E
Net sales	32.5	4.8	5.7	13.4	11.3	35.2	9.8	9.4	8.7	9.9	37.8	53.0	68.2
<i>change, %</i>	<i>4%</i>	<i>-56%</i>	<i>-33%</i>	<i>110%</i>	<i>71%</i>	<i>9%</i>	<i>105%</i>	<i>65%</i>	<i>-35%</i>	<i>-13%</i>	<i>7%</i>	<i>40%</i>	<i>29%</i>
Cost of revenue	-13.2	-2.0	-2.4	-6.0	-3.5	-14.0	-4.3	-3.7	-3.8	-3.3	-15.0	-21.2	-27.3
Gross profit	19.3	2.8	3.3	7.4	7.9	21.3	5.6	5.7	5.0	6.6	22.9	31.8	40.9
<i>-margin, %</i>	<i>59%</i>	<i>58%</i>	<i>58%</i>	<i>55%</i>	<i>69%</i>	<i>60%</i>	<i>57%</i>	<i>60%</i>	<i>57%</i>	<i>67%</i>	<i>60%</i>	<i>60%</i>	<i>60%</i>
Other operating income	0.1	0.0	0.0			0.1	0.0	0.0	0.0	0.0	0.0	0.0	0.0
R&D costs	-7.0	-1.8	-1.8			-10.4	-2.7	-2.0	-2.1	-2.3	-9.1	-9.5	-10.5
Sales and marketing costs	-12.7	-2.5	-2.9			-23.6	-4.3	-4.1	-3.8	-5.5	-17.7	-22.0	-26.0
Admin costs	-4.7	-1.0	-1.1			-4.2	-1.0	-0.7	-0.7	-0.8	-3.2	-3.5	-3.7
EBIT	-5.1	-2.5	-2.4	-10.3	-1.6	-16.9	-2.4	-1.1	-1.6	-2.0	-7.1	-3.2	0.7
<i>-margin, %</i>	<i>-16%</i>	<i>-52%</i>	<i>-43%</i>	<i>-77%</i>	<i>-14%</i>	<i>-48%</i>	<i>-24%</i>	<i>-12%</i>	<i>-18%</i>	<i>-20%</i>	<i>-19%</i>	<i>-6%</i>	<i>1%</i>
Depreciations		0.1	0.1	0.8	0.7	1.7	0.7	0.7	0.7	0.7	2.9	2.8	2.8
IFRS 2 adjustment		0.4	0.4	0.4	0.4	1.5	0.3	-0.1	0.3	0.3	0.9	1.4	1.4
Adj. operating result		-2.1	-2.0	-9.2	-0.5	-13.8	-1.3	-0.5	-0.5	-0.9	-3.3	1.0	4.9
<i>-margin, %</i>		<i>-43%</i>	<i>-35%</i>	<i>-68%</i>	<i>-4%</i>	<i>-39%</i>	<i>-13%</i>	<i>-5%</i>	<i>-6%</i>	<i>-10%</i>	<i>-9%</i>	<i>2%</i>	<i>7%</i>

Next Games	2017	Q1/18	Q2/18	Q3/18	Q4/18	2018	Q1/19	Q2/19	Q3/19E	Q4/19E	2019E	2020E	2021E
DAU (m)	0.43	0.31	0.31	0.67	0.48	0.46	0.44	0.35	0.33	0.49	0.40	0.79	1.13
TWD: NML		0.31	0.31	0.27	0.25		0.23	0.19	0.18	0.19	0.20	0.17	0.13
TWD: Our World				0.39	0.22		0.21	0.15	0.15	0.15	0.17	0.17	0.15
Blade Runner Nexus										0.15	0.15	0.20	0.18
Stranger Things -game												0.25	0.20
Game 1/2021													0.22
Game 2/2021													0.25
ARPPDAU (EUR)	0.19	0.17	0.20	0.22	0.24	0.24	0.24	0.28	0.29	0.26	0.27	0.24	0.22
TWD: NML		0.17	0.21	0.24	0.25		0.22	0.22	0.22	0.23	0.22	0.20	0.18
TWD: Our World				0.23	0.28		0.26	0.37	0.37	0.37	0.34	0.31	0.25
Blade Runner Nexus										0.18	0.18	0.22	0.20
Stranger Things -game												0.23	0.22
Game 1/2021													0.23
Game 2/2021													0.23
Gross bookings (EURm)	30.9	4.7	5.7	13.8	11.6	35.8	9.5	9.0	8.7	9.9	37.1	53.0	68.2
TWD: NML		4.7	5.5	5.5	5.7	21.4	4.5	3.8	3.6	4.0	16.0	12.4	8.5
TWD: Our World				8.2	5.8	14.0	5.0	5.2	5.1	5.1	20.4	19.2	13.7
Blade Runner Nexus										0.7	0.7	16.1	13.1
Stranger Things -game												5.2	16.1
Game 1/2021													11.5
Game 2/2021													5.2

Source: Next Games, Evli Research estimates

Investment risks

Weak visibility in development pipeline	Next Games' currently has two live games, TWD: NML and TWD: Our World, along with Blade Runner Nexus in soft launch, the Stranger Things game in pre-production along with nine other game concepts or prototypes. In our view the main risks associated with the company's long-term performance are related to the success of games in development, where the visibility is low.
Company ambitions to be viewed on a longer horizon	Next Games' should be viewed as a growth company with intentions to build a larger portfolio of games and as such the company should be viewed on a longer time horizon. Turning the company towards healthy profitability will according to our estimates take several years. The materialization of the outcome depends on the revenue of current live games not decreasing significantly, as this could impact on financing of new game launches.
Possible that a game in development is not released	In our estimates we expect Next Games to be able to maintain the target of launching at least one new game per year. Currently only Blade Runner Nexus has entered soft launch, with the other projects still in relatively early stages. The risk of the company deciding not to launch a project exists and even after having been released to soft launch it is possible that a game does not appear to be successful enough to be launched globally. Financing of game launches is also a risk, as for instance Next Games cancelled a project in collaboration with NBCUniversal as part of the cost savings program initiated in late 2018.
Only a fraction of games see significant success	The mobile gaming market is characterized by a highly skewed success rate. The low barrier to entry in developing a mobile game, compared to for instance a PC game, has seen the amount of mobile games increase vastly. In July 2019 the number of gaming apps in the Apple App Store amounted to around 900,000 ¹⁸ . Only a fraction of these games reach high levels of success. Next Games focus on third party IP based games could offer increased possibility of success from user acquisition, but to retain players the key is to create a compelling game and offer attractive content in the long run.
Different cost structure to in-house IP mobile games developers	Due to the focus on third party IP based games a large part of Next Games costs are fixed to sales, as the company apart from the commissions to the app stores also pays royalty fees to the license owners. Furthermore, the company needs to spend resources on acquisition of new users, which can be a significant cost especially around launches of new games. If the company is not able to attract new users without spending a significant part of revenues on user acquisition, it will be challenging to reach higher levels of profitability.

¹⁸ <https://www.statista.com/statistics/268251/number-of-apps-in-the-itunes-app-store-since-2008/>

Valuation

HOLD with a target price of EUR 1.0 (1.5)

We adjust our target price to EUR 1.0 (1.5) following the expected dilution from the rights offering, with our minor estimates revisions not having a significant impact. Valuation still quite justifiably emphasizes near-term uncertainties and we consider current valuation levels reasonable, thus retaining our HOLD-rating.

Valuation approach assumes full completion of rights offering

As the by Next Games in late September 2019 announced rights offering is currently still on-going, we note that our valuation assumptions assume full completion of the offering and corresponding increase of ~50% in the total number of shares. As such any per share estimates are estimated using a number of shares of ~27.9m, corresponding to the max shares in the offering. We view the completion of the rights offering in full at a near certain likelihood due to the given undertakings to subscribe by existing shareholders.

Valuation reflects near-term uncertainties, currently hard to justify valuation based on long-term potential

Next Games performance since its IPO in 2017 has not lived up to expectations and valuation has justifiably shifted from viewing long-term potential to highlighting near-term uncertainty. In regards of long-term plans and potential Next Games in our view has not changed significantly, with the company still seeking to scale through the launch of new and attractive mobile game content. The near-term challenges that the company has faced should however not be disregarded. Our World failing to meet expectations upon launch inadvertently also impacted on Next Games in the longer term, as the challenging financial situation led to the cancellation of a game project under development and thus postponed some of the scaling opportunities. The long-term performance is currently also to a larger extent dependent on the performance of live games as well as new game launches. We remain fairly sceptical to improvements in the operational metrics of the two live games in the near-term, although Our World still holds potential for improvement going into 2020. The rights offering will give Next Games more leeway to seek growth opportunities, but with cash flows still under some pressure, Next Games cannot really afford to make mistakes with future launches. In summary, given the challenges Next Games' has faced and continues to face, emphasizing long-term potential in valuation is currently hard to justify.

For deriving a value for Next Games we rely mainly on peer multiples. For the purpose we have created a peer group consisting of European and North American game publishers and developers, focusing largely on mobile games. As identifying a reasonable number of fully mobile focused developers/publishers poses some challenges due to lack of estimates in smaller firms and business diversification in the larger firms, several of the selected peers also for instance develop content for other platforms and. For an added point of reference we have constructed a similar peer group for companies in the APAC region, where publicly listed mobile game developers are seemingly more common. Given that we do not expect Next Games to post a profit during 2019-2020, we rely on EV/Sales multiples.

Discount to peer group justifiable given recent performance

The European and North American peer group median implies an 2019E EV/Sales multiple of 1.6x. Given the expected differences in profitability and growth we identify a further sub-group of companies that have had also to a certain degree not lived up to expectations and seen valuation decline as a result, namely MAG Interactive, Starbreeze, G5 Entertainment, and Rovio. The median 2019E EV/Sales multiple of these companies is around 1.0x. Next Games trades at a discount compared to the sub-group median EV/Sales, which we can see as largely justifiable in the near-term given Next Games' current negative profitability level, growth outlook uncertainties and diluting rights offering.

Implied fair value from DCF-model EUR 1.20 per share

Our DCF-model implies a fair value of EUR 1.20 per share. In summary, our model estimates assume a sales CAGR of ~25% during 2019-2021, ~6% during 2022-2028 and a terminal growth of 2.5%. We further assume an EBIT-margin of 10% to be reached and maintained from 2023 onwards. We apply a rather high WACC of 13% to reflect the uncertainties relating to future cash flows.

Table 7: North American and European peers

NEXT GAMES PEER GROUP	MCAP MEUR	EV/EBITDA			EV/EBIT			EV/Sales		
		19	20	21	19	20	21	19	20	21
Zynga	5033	18.7x	15.3x	13.5x	20.1x	16.5x	15.7x	3.5x	3.0x	2.8x
SciPlay Corp	1249	10.8x	8.5x	7.3x	12.3x	9.4x	8.1x	3.1x	2.7x	2.4x
Glu Mobile	655	19.1x	11.2x	6.5x	20.5x	10.1x		1.6x	1.4x	1.2x
Stillfront Grp	621	9.4x	7.5x	6.9x	12.5x	9.9x	8.9x	3.6x	3.0x	2.7x
Rovio Entmt	337	6.6x	5.7x	5.1x	11.2x	7.3x	6.3x	0.7x	0.7x	0.7x
Ten Square Games	224	14.3x	12.8x	11.8x	14.5x	13.0x	12.1x	4.9x	4.5x	4.0x
Digital Bros	133	11.4x			27.9x	11.5x	11.1x	1.5x	1.1x	1.1x
G5 Entertainment	112	5.0x	4.4x	3.5x	9.7x	8.1x	6.0x	0.9x	0.8x	0.7x
Starbreeze	32						2.9x	1.1x	1.6x	0.8x
MAG Interactive	34	17.9x	4.6x			11.0x		1.0x	0.9x	
Peer Group Average	843	11.9x	9.4x	7.8x	16.1x	10.7x	8.9x	2.3x	2.1x	1.8x
Peer Group Median	281	11.1x	8.5x	6.9x	13.5x	10.0x	8.5x	1.6x	1.6x	1.2x
Next Games (Evli est.)	26	-6.8x	51.9x	5.4x	-3.2x	-8.3x	37.5x	0.6x	0.5x	0.4x

Next Games prem./disc. to peer median -160% 549% -21% -123% -182% 344% -61% -66% -66%

Source Bloomberg, Evli Research

NEXT GAMES PEER GROUP	Sales		Sales gr.			EBIT-%				
	17	18	19	20	21	17	18	19	20	21
Zynga	764	769	78%	14%	7%	3.0 %	0.7 %	17.3 %	18.4 %	19.9 %
SciPlay Corp	321	353	25%	15%	13%	13.2 %	11.1 %	23.8 %	28.2 %	29.0 %
Glu Mobile	254	311	19%	16%	18%	-31.9 %	-3.4 %	4.2 %	9.8 %	20.1 %
Stillfront Grp	95	129	50%	20%	11%	12.3 %	26.0 %	28.8 %	30.2 %	29.6 %
Rovio Entmt	297	281	9%	4%	4%	10.6 %	11.2 %	9.1 %	12.2 %	12.2 %
Ten Square Games	6	27	61%	9%	11%	40.2 %	38.4 %	32.3 %	32.7 %	31.9 %
Digital Bros	114	58	81%	30%	-1%	6.1 %	-13.0 %	4.9 %	9.5 %	
G5 Entertainment	118	141	-18%	8%	12%	9.0 %	9.9 %	11.0 %	10.4 %	10.7 %
Starbreeze	38	34	-24%	-33%	91%	-41.9 %	-453.4 %			
MAG Interactive		20	-12%	17%			-14.0 %			
Peer Group Average	223	234	31%	9%	18%	2.3 %	-41.4 %	16.4 %	18.9 %	21.9 %
Peer Group Median	118	141	25%	14%	11%	9.0 %	9.9 %	14.1 %	15.3 %	20.1 %
Next Games (Evli est.)	32	35	7%	40%	29%	-15.6 %	-48.0 %	-18.7 %	-6.1 %	1.1 %

Source Bloomberg, Evli Research

Table 8: APAC region peers

NEXT GAMES PEER GROUP	MCAP MEUR	EV/EBITDA			EV/EBIT			EV/Sales		
		19	20	21	19	20	21	19	20	21
NEXON	9975	6.2x	5.5x	5.3x	6.8x	6.3x	5.7x	2.6x	2.3x	2.3x
NCsoft	8736	18.3x	10.0x	8.6x	19.1x	10.4x	8.9x	6.1x	4.2x	3.7x
Netmarble	6188	14.4x	10.6x	10.0x	20.5x	14.4x	14.5x	2.3x	2.0x	1.9x
Wuhu Sanqi Interactive Ent	4884	14.4x	12.4x	10.7x	14.9x	13.1x	11.4x	3.1x	2.7x	2.4x
Colopl	1955	135.2x			265.5x			4.5x	4.5x	4.3x
Yoozoo Interact	1812	11.2x	9.5x	8.4x	13.1x	11.2x	9.7x	3.4x	2.9x	2.5x
NHN Corp	931	5.4x	4.6x	4.1x	9.0x	6.7x	5.8x	0.6x	0.6x	0.5x
Com2uS	917	3.8x	3.1x	2.8x	3.9x	3.3x	3.1x	1.0x	0.9x	0.8x
Akatsuki	788	4.8x	4.4x	4.3x	4.9x	4.4x	4.4x	2.4x	2.3x	2.2x
DoubleU Games	770	6.3x	5.5x	5.3x	8.3x	7.8x	7.0x	2.5x	2.2x	2.1x
IGG	716	3.1x	2.9x	2.7x	2.9x	2.7x	2.6x	0.7x	0.7x	0.7x
iDreamSky Technology	626	7.3x	5.6x	4.0x	7.5x	5.9x		1.8x	1.5x	1.3x
Changyou.com	463	2.3x	1.8x	2.3x	2.3x	1.5x		0.7x	0.7x	0.6x
Peer Group Average	2474	23.7x	7.5x	6.8x	39.7x	8.7x	7.9x	2.9x	2.5x	2.3x
Peer Group Median	853	11.2x	7.5x	6.9x	13.1x	8.6x	7.3x	2.6x	2.3x	2.3x
Next Games (Evli est.)	26	-6.8x	51.9x	5.4x	-3.2x	-8.3x	37.5x	0.7x	0.5x	0.4x

Next Games prem./disc. to peer median -208% 839% 2% -138% -223% 373% -72% -79% -81%

Source Bloomberg, Evli Research

NEXT GAMES PEER GROUP	Sales		Sales gr.			EBIT-%				
	17	18	19	20	21	17	18	19	20	21
NEXON	1858	1947	14%	10%	3%	38.5 %	38.8 %	38.4 %	39.8 %	40.4 %
NCsoft	1380	1321	-2%	46%	13%	33.3 %	35.9 %	30.3 %	39.7 %	40.9 %
Netmarble	1902	1556	12%	14%	4%	21.0 %	12.0 %	11.0 %	14.4 %	14.8 %
Wuhu Sanqi Interactive Ent	809	973	55%	16%	12%	20.9 %	9.3 %	20.2 %	19.8 %	20.1 %
Colopl	397	332	-3%	1%	5%	22.8 %	10.5 %	4.8 %	5.6 %	2.3 %
Yoozoo Interact	422	456	24%	19%	15%	22.8 %	25.4 %	28.1 %	28.6 %	29.5 %
NHN Corp	713	974	19%	10%	7%	3.8 %	5.5 %	6.7 %	8.2 %	8.4 %
Com2uS	398	371	-4%	16%	6%	38.3 %	30.4 %	26.5 %	27.4 %	28.8 %
Akatsuki	157	188	41%	6%	4%	47.8 %	44.5 %	47.8 %	47.3 %	45.2 %
DoubleU Games	251	372	8%	10%	7%	25.4 %	28.1 %	30.1 %	31.3 %	32.0 %
IGG	539	635	2%	1%	4%	29.1 %	31.9 %	23.1 %	24.1 %	25.2 %
iDreamSky Technology	232	303	31%	19%	12%	11.6 %	13.9 %	18.3 %	21.9 %	25.7 %
Changyou.com	515	412	-2%	-3%	16%	15.6 %	20.6 %	26.0 %	29.1 %	30.8 %
Peer Group Average	893	902	17%	15%	8%	27.7 %	23.6 %	23.8 %	25.6 %	25.6 %
Peer Group Median	713	973	14%	14%	6%	22.8 %	25.4 %	26.5 %	27.4 %	28.8 %
Next Games (Evli est.)	32	35	7%	40%	29%	-15.6 %	-48.0 %	-18.7 %	-6.1 %	1.1 %

Source Bloomberg, Evli Research

GLOSSARY

DAU (daily active users)	A measure for the number of users who signed in to the game at least one time during a 24-hour period. Average DAU over a period of time is measured by adding the total number of active users for each day and dividing by the number of days. DAU is useful for measuring player engagement.
MAU (monthly active users)	MAU is calculated in a similar way to DAU but is instead based on the number of users who signed in to the game at least once during a 30-day period. MAU is useful for measuring the overall size of the player network.
ARPDau (average revenue per daily active user)	ARPDau is calculated by dividing daily gross bookings by the number of daily active users. ARPDau is a useful measure for the monetization of a game, as it places sales in relation to player volume.

VALUATION RESULTS	BASE CASE DETAILS	VALUATION ASSUMPTIONS	ASSUMPTIONS FOR WACC	
Current share price	0.92 PV of Free Cash Flow	9 Long-term growth, %	2.5 Risk-free interest rate, %	2.25
DCF share value	1.18 PV of Horizon value	22 WACC, %	13.0 Market risk premium, %	5.8
Share price potential, %	27.8 Unconsolidated equity	0 Spread, %	0.5 Debt risk premium, %	2.8
Maximum value	1.3 Marketable securities	7 Minimum WACC, %	12.5 Equity beta coefficient	1.80
Minimum value	1.1 Debt - dividend	-6 Maximum WACC, %	13.5 Target debt ratio, %	15
Horizon value, %	71.0 Value of stock	33 Nr of shares, Mn	27.9 Effective tax rate, %	20

DCF valuation, EURm	2018	2019E	2020E	2021E	2022E	2023E	2024E	2025E	2026E	2027E	2028E	Horizon
Net sales	35	38	53	68	75	83	89	93	98	103	105	108
<i>Sales growth, %</i>	<i>8.5</i>	<i>7.5</i>	<i>39.9</i>	<i>28.8</i>	<i>10.0</i>	<i>10.0</i>	<i>7.5</i>	<i>5.0</i>	<i>5.0</i>	<i>5.0</i>	<i>2.5</i>	<i>2.5</i>
Operating income (EBIT)	-17	-7	-3	1	6	8	9	9	10	10	11	11
<i>EBIT margin, %</i>	<i>-48.0</i>	<i>-18.7</i>	<i>-6.1</i>	<i>1.1</i>	<i>8.0</i>	<i>10.0</i>	<i>10.0</i>	<i>10.0</i>	<i>10.0</i>	<i>10.0</i>	<i>10.0</i>	<i>10.0</i>
+ Depreciation+amort.	2	4	4	4	5	5	6	6	7	7	7	
- Income taxes	0	1	1	0	-1	-2	-2	-2	-2	-2	-2	
- Change in NWC	1	2	2	2	1	1	1	0	0	0	0	
<i>NWC / Sales, %</i>	<i>-4.1</i>	<i>-10.1</i>	<i>-10.1</i>	<i>-10.1</i>	<i>-10.1</i>	<i>-10.1</i>	<i>-10.1</i>	<i>-10.1</i>	<i>-10.1</i>	<i>-10.1</i>	<i>-10.1</i>	
+ Change in other liabs	0	0	0	0	0	0	0	0	0	0	0	
- Capital Expenditure	-11	-6	-7	-7	-7	-7	-8	-8	-8	-9	-9	-9
<i>Investments / Sales, %</i>	<i>32.0</i>	<i>16.9</i>	<i>12.6</i>	<i>10.1</i>	<i>9.6</i>	<i>9.1</i>	<i>8.8</i>	<i>8.7</i>	<i>8.6</i>	<i>8.6</i>	<i>8.5</i>	<i>8.5</i>
- Other items	0	0	0	0	0	0	0	0	0	0	0	
= Unlevered Free CF (FCF)	-26	-6	-4	0	3	5	6	6	6	7	7	69
= Discounted FCF (DFCF)		-6	-3	0	2	3	3	3	3	3	2	22
= DFCF min WACC		-6	-3	0	2	3	3	3	3	3	2	24
= DFCF max WACC		-6	-3	0	2	3	3	3	3	2	2	20

INTERIM FIGURES

EVLI ESTIMATES, EURm	2018Q1	2018Q2	2018Q3	2018Q4	2018	2019Q1	2019Q2	2019Q3E	2019Q4E	2019E	2020E	2021E
Net sales	5	6	13	11	35	10	9	9	10	38	53	68
EBITDA	-2	-2	-10	-1	-15	-1	0	-1	-1	-3	1	5
<i>EBITDA margin (%)</i>	<i>-50.9</i>	<i>-41.8</i>	<i>-71.2</i>	<i>-7.8</i>	<i>-43.3</i>	<i>-14.7</i>	<i>-1.6</i>	<i>-7.6</i>	<i>-10.5</i>	<i>-8.7</i>	<i>1.0</i>	<i>7.4</i>
EBIT	-3	-2	-10	-2	-17	-2	-1	-2	-2	-7	-3	1
<i>EBIT margin (%)</i>	<i>-52.3</i>	<i>-43.0</i>	<i>-77.0</i>	<i>-14.3</i>	<i>-48.0</i>	<i>-24.4</i>	<i>-11.7</i>	<i>-18.4</i>	<i>-20.1</i>	<i>-18.7</i>	<i>-6.1</i>	<i>1.1</i>
Net financial items	0	0	0	0	0	0	0	0	0	0	0	0
Pre-tax profit	-2	-2	-10	-2	-17	-3	-1	-2	-2	-8	-4	0
Tax	0	0	0	0	-1	1	0	0	0	2	1	0
<i>Tax rate (%)</i>	<i>-15.4</i>	<i>-15.8</i>	<i>-2.0</i>	<i>-12.5</i>	<i>-6.9</i>	<i>20.0</i>	<i>20.0</i>	<i>20.0</i>	<i>20.0</i>	<i>20.0</i>	<i>20.0</i>	<i>20.0</i>
Net profit	-3	-3	-11	-2	-18	-2	-1	-1	-2	-6	-3	0
EPS	-0.15	-0.15	-0.57	-0.10	-0.97	-0.07	-0.03	-0.05	-0.06	-0.22	-0.10	0.01
EPS adjusted (diluted no. of shares)	-0.15	-0.15	-0.57	-0.10	-0.97	-0.07	-0.03	-0.05	-0.06	-0.22	-0.10	0.01
Dividend per share	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
SALES, EURm												
Next Games	5	6	13	11	35	10	9	9	10	38	53	68
Total	5	6	13	11	35	10	9	9	10	38	53	68
SALES GROWTH, Y/Y %												
Next Games	-56.2	-33.2	110.4	70.5	8.5	105.3	65.1	-34.9	-12.6	7.5	39.9	28.8
Total	-56.2	-33.2	110.4	70.5	8.5	105.3	65.1	-34.9	-12.6	7.5	39.9	28.8
EBIT, EURm												
Next Games	-3	-2	-10	-2	-17	-2	-1	-2	-2	-7	-3	1
Total	-3	-2	-10	-2	-17	-2	-1	-2	-2	-7	-3	1
EBIT margin, %												
Next Games	-52.3	-43.0	-77.0	-14.3	-48.0	-24.4	-11.7	-18.4	-20.1	-18.7	-6.1	1.1
Total	-52.3	-43.0	-77.0	-14.3	-48.0	-24.4	-11.7	-18.4	-20.1	-18.7	-6.1	1.1

INCOME STATEMENT, EURm	2014	2015	2016	2017	2018	2019E	2020E	2021E
Sales	0	10	31	32	35	38	53	68
<i>Sales growth (%)</i>	<i>0.0</i>	<i>242,600.0</i>	<i>220.5</i>	<i>4.4</i>	<i>8.5</i>	<i>7.5</i>	<i>39.9</i>	<i>28.8</i>
Costs	-4	-16	-33	-37	-50	-41	-52	-63
Reported EBITDA	-4	-7	-2	-5	-15	-3	1	5
Extraordinary items in EBITDA	0	0	0	0	0	0	0	0
<i>EBITDA margin (%)</i>	<i>-98,825.0</i>	<i>-68.5</i>	<i>-6.3</i>	<i>-14.4</i>	<i>-43.3</i>	<i>-8.7</i>	<i>1.0</i>	<i>7.4</i>
Depreciation	0	0	0	0	-2	-4	-4	-4
EBITA	-4	-7	-2	-5	-17	-7	-3	1
Goodwill amortization / writedown	0	0	0	0	0	0	0	0
Reported EBIT	-4	-7	-2	-5	-17	-7	-3	1
<i>EBIT margin (%)</i>	<i>-98,825.0</i>	<i>-72.5</i>	<i>-7.0</i>	<i>-15.6</i>	<i>-48.0</i>	<i>-18.7</i>	<i>-6.1</i>	<i>1.1</i>
Net financials	0	0	0	-1	0	0	0	0
Pre-tax profit	-4	-7	-2	-6	-17	-8	-4	0
Extraordinary items	0	0	0	0	0	0	0	0
Taxes	0	0	2	0	-1	2	1	0
Minority shares	0	0	0	0	0	0	0	0
Net profit	-4	-7	0	-6	-18	-6	-3	0
BALANCE SHEET, EURm								
Assets								
Fixed assets	1	1	3	8	18	20	23	26
<i>% of sales</i>	<i>24,975</i>	<i>9</i>	<i>8</i>	<i>26</i>	<i>51</i>	<i>54</i>	<i>44</i>	<i>38</i>
Goodwill	0	0	2	3	3	3	3	3
<i>% of sales</i>	<i>0</i>	<i>0</i>	<i>7</i>	<i>10</i>	<i>9</i>	<i>9</i>	<i>6</i>	<i>5</i>
Inventory	0	0	0	0	0	0	0	0
<i>% of sales</i>	<i>0</i>	<i>0</i>	<i>0</i>	<i>0</i>	<i>0</i>	<i>0</i>	<i>0</i>	<i>0</i>
Receivables	0	3	6	5	6	5	6	8
<i>% of sales</i>	<i>0</i>	<i>34</i>	<i>20</i>	<i>15</i>	<i>18</i>	<i>12</i>	<i>12</i>	<i>12</i>
Liquid funds	2	5	4	26	7	10	7	7
<i>% of sales</i>	<i>56,825</i>	<i>48</i>	<i>12</i>	<i>81</i>	<i>21</i>	<i>27</i>	<i>13</i>	<i>10</i>
Total assets	3	9	17	46	36	40	42	46
Liabilities								
Equity								
Equity	2	5	7	39	23	25	22	22
<i>% of sales</i>	<i>59,025</i>	<i>48</i>	<i>24</i>	<i>121</i>	<i>65</i>	<i>66</i>	<i>41</i>	<i>33</i>
Deferred taxes	0	0	0	0	0	0	0	0
<i>% of sales</i>	<i>0</i>	<i>0</i>	<i>0</i>	<i>0</i>	<i>0</i>	<i>0</i>	<i>0</i>	<i>0</i>
Interest bearing debt	0	0	1	1	6	7	8	9
<i>% of sales</i>	<i>3,825</i>	<i>4</i>	<i>3</i>	<i>2</i>	<i>16</i>	<i>18</i>	<i>15</i>	<i>13</i>
Non-interest bearing current liabilities	1	4	9	6	8	8	12	15
<i>% of sales</i>	<i>18,875</i>	<i>37</i>	<i>28</i>	<i>17</i>	<i>22</i>	<i>22</i>	<i>22</i>	<i>22</i>
Other interest free debt	0	0	0	0	0	0	0	0
<i>% of sales</i>	<i>0</i>	<i>2</i>	<i>0</i>	<i>0</i>	<i>0</i>	<i>0</i>	<i>0</i>	<i>0</i>
Total liabilities	3	9	17	46	36	40	42	46
CASH FLOW, EURm								
+ EBITDA	-4	-7	-2	-5	-15	-3	1	5
- Net financial items	0	0	0	-1	0	0	0	0
- Taxes	0	0	0	0	0	2	1	0
- Increase in Net Working Capital	1	0	2	-2	1	2	2	2
+/- Other	0	0	-1	0	0	0	0	0
= Cash flow from operations	-3	-7	-1	-7	-15	0	2	6
- Capex	0	-1	-3	-8	-11	-6	-7	-7
- Acquisitions	0	0	0	0	0	0	0	0
+ Divestments	0	0	0	0	0	0	0	0
= Net cash flow	-3	-8	-1	-15	-27	-6	-4	-1
+/- Change in interest-bearing debt	0	0	1	0	5	1	1	1
+/- New issues/buybacks	6	9	3	38	2	8	0	0
- Paid dividend	0	0	0	0	0	0	0	0
+/- Change in loan receivables	0	10	0	0	0	0	0	0
Change in cash	3	11	3	23	-20	3	-3	0

KEY FIGURES	2015	2016	2017	2018	2019E	2020E	2021E
M-cap	0	0	168	20	26	26	26
Net debt	-4	-3	-26	-1	-3	1	2
Enterprise value	-4	-3	143	18	22	27	27
Sales	10	31	32	35	38	53	68
EBITDA	-7	-2	-5	-15	-3	1	5
EBIT	-7	-2	-5	-17	-7	-3	1
Pre-tax	-7	-2	-6	-17	-8	-4	0
Earnings	-7	0	-6	-18	-6	-3	0
Book value	5	7	39	23	25	22	22
Valuation multiples							
EV/sales	-0.4	-0.1	4.4	0.5	0.6	0.5	0.4
EV/EBITDA	0.6	1.4	-30.4	-1.2	-6.8	51.9	5.4
EV/EBITA	0.6	1.2	-28.1	-1.1	-3.2	-8.3	37.5
EV/EBIT	0.6	1.2	-28.1	-1.1	-3.2	-8.3	37.5
EV/operating cash flow	0.6	3.2	-20.7	-1.2	44.3	9.9	4.2
EV/cash earnings	0.6	1.4	-25.9	-1.2	-10.1	30.9	6.0
P/E	0.0	0.0	-30.1	-1.1	-4.3	-8.9	100.6
P/E excl. goodwill	0.0	0.0	-30.1	-1.1	-4.3	-8.9	100.6
P/B	0.0	0.0	4.3	0.9	1.0	1.2	1.2
P/sales	0.0	0.0	5.2	0.6	0.7	0.5	0.4
P/CF	0.0	0.0	-24.4	-1.3	50.8	9.5	4.0
Target EV/EBIT	0.0	0.0	0.0	0.0	-3.5	-9.0	40.6
Target P/E	0.0	0.0	0.0	0.0	-4.6	-9.7	109.3
Target P/B	0.0	0.0	0.0	0.0	1.1	1.3	1.3
Per share measures							
Number of shares	2,449	3,325	18,219	18,503	27,909	27,909	27,909
Number of shares (diluted)	2,449	3,325	18,219	18,503	27,909	27,909	27,909
EPS	-2.81	0.03	-0.34	-0.97	-0.22	-0.10	0.01
EPS excl. goodwill	-2.81	-0.27	-0.31	-0.97	-0.22	-0.10	0.01
Cash EPS	-2.65	-0.60	-0.30	-0.82	-0.08	0.03	0.16
Operating cash flow per share	-2.74	-0.26	-0.38	-0.79	0.02	0.10	0.23
Capital employed per share	0.17	1.11	0.73	1.13	0.76	0.81	0.85
Book value per share	1.90	2.22	2.16	1.24	0.89	0.79	0.80
Book value excl. goodwill	1.90	1.55	1.98	1.06	0.77	0.67	0.68
Dividend per share	0.00	0.00	0.00	0.00	0.00	0.00	0.00
Dividend payout ratio, %	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Dividend yield, %	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Efficiency measures							
ROE	-196.2	1.6	-26.2	-58.0	-25.3	-12.3	1.2
ROCE	-176.2	-32.7	-20.9	-49.2	-23.4	-10.5	2.4
Financial ratios							
Capex/sales, %	11.2	10.3	23.9	32.0	16.9	12.6	10.1
Capex/depreciation excl. goodwill,%	277.1	392.5	1,739.9	680.7	168.4	177.7	159.2
Net debt/EBITDA, book-weighted	0.6	1.4	5.5	0.1	1.0	1.9	0.3
Debt/equity, market-weighted	0.0	0.0	0.0	0.3	0.3	0.3	0.3
Equity ratio, book-weighted	52.7	50.9	88.7	62.7	61.8	52.8	48.4
Gearing	-0.90	-0.37	-0.65	-0.07	-0.13	0.05	0.08
Number of employees, average	0	0	0	0	0	0	0
Sales per employee, EUR	0	0	0	0	0	0	0
EBIT per employee, EUR	0	0	0	0	0	0	0

COMPANY DESCRIPTION: Next Games is a Finland-based developer and publisher of licensed mobile games. The Company develops games in cooperation with the license owners of the entertainment products, for instance a television series. The company's current live games include The Walking Dead No Man's Land and the Walking Dead: Our World along with several new projects under development.

INVESTMENT CASE:

OWNERSHIP STRUCTURE	SHARES	EURm	%
Ovaskainen Jari Juhani Rainer	3,093,110	2.846	11.1%
IDG Ventures USA III, L.P.	1,188,306	1.093	4.3%
Hiitola Kalle Johannes	942,896	0.867	3.4%
Achrén Joakim Tomas Johan	940,818	0.866	3.4%
Achrén Mikael Jan Kennet	862,622	0.794	3.1%
Jumisko Jaakko Ensio	845,246	0.778	3.0%
Ilmarinen Mutual Pension Insurance Company	546,224	0.503	2.0%
Varma Mutual Pension Insurance Company	380,000	0.350	1.4%
Nuard Ventures Oy	364,000	0.335	1.3%
Vaah Holdings Oy	266,720	0.245	1.0%
Ten largest	9,429,942	8.676	34%
Residual	18,478,758	17.000	66%
Total	27,908,700	25.676	100%

EARNINGS CALENDAR

November 01, 2019

Q3 report

OTHER EVENTS

COMPANY MISCELLANEOUS

CEO: Teemu Huuhtanen

Aleksanterinkatu 9A, 00100 Helsinki

CFO: Annina Salvén

Tel:

IR:

DEFINITIONS

P/E	$\frac{\text{Price per share}}{\text{Earnings per share}}$	EPS	$\frac{\text{Profit before extraordinary items and taxes} - \text{income taxes} + \text{minority interest}}{\text{Number of shares}}$
P/Sales	$\frac{\text{Market cap}}{\text{Sales}}$	DPS	Dividend for the financial period per share
P/BV	$\frac{\text{Price per share}}{\text{Shareholders' equity} + \text{taxed provisions per share}}$	CEPS	$\frac{\text{Gross cash flow from operations}}{\text{Number of shares}}$
P/CF	$\frac{\text{Price per share}}{\text{Operating cash flow per share}}$	EV/Share	$\frac{\text{Enterprise value}}{\text{Number of shares}}$
EV (Enterprise value)	Market cap + net debt + minority interest at market value – share of associated companies at market value	Sales/Share	$\frac{\text{Sales}}{\text{Number of shares}}$
Net debt	Interest bearing debt – financial assets	EBITDA/Share	$\frac{\text{Earnings before interest, tax, depreciation and amortisation}}{\text{Number of shares}}$
EV/Sales	$\frac{\text{Enterprise value}}{\text{Sales}}$	EBIT/Share	$\frac{\text{Operating profit}}{\text{Number of shares}}$
EV/EBITDA	$\frac{\text{Enterprise value}}{\text{Earnings before interest, tax, depreciation and amortisation}}$	EAFI/Share	$\frac{\text{Pretax profit}}{\text{Number of shares}}$
EV/EBIT	$\frac{\text{Enterprise value}}{\text{Operating profit}}$	Capital employed/Share	$\frac{\text{Total assets} - \text{non interest bearing debt}}{\text{Number of shares}}$
Div yield, %	$\frac{\text{Dividend per share}}{\text{Price per share}}$	Total assets	Balance sheet total
Payout ratio, %	$\frac{\text{Total dividends}}{\text{Earnings before extraordinary items and taxes} - \text{income taxes} + \text{minority interest}}$	Interest coverage (x)	$\frac{\text{Operating profit}}{\text{Financial items}}$
Net cash/Share	$\frac{\text{Financial assets} - \text{interest bearing debt}}{\text{Number of shares}}$	Asset turnover (x)	$\frac{\text{Turnover}}{\text{Balance sheet total (average)}}$
ROA, %	$\frac{\text{Operating profit} + \text{financial income} + \text{extraordinary items}}{\text{Balance sheet total} - \text{interest free short term debt} - \text{long term advances received and accounts payable (average)}}$	Debt/Equity, %	$\frac{\text{Interest bearing debt}}{\text{Shareholders' equity} + \text{minority interest} + \text{taxed provisions}}$
ROCE, %	$\frac{\text{Profit before extraordinary items} + \text{interest expenses} + \text{other financial costs}}{\text{Balance sheet total} - \text{non interest bearing debt (average)}}$	Equity ratio, %	$\frac{\text{Shareholders' equity} + \text{minority interest} + \text{taxed provisions}}{\text{Total assets} - \text{interest free loans}}$
ROE, %	$\frac{\text{Profit before extraordinary items and taxes} - \text{income taxes}}{\text{Shareholders' equity} + \text{minority interest} + \text{taxed provisions (average)}}$	CAGR, %	Cumulative annual growth rate = Average growth per year

Important Disclosures

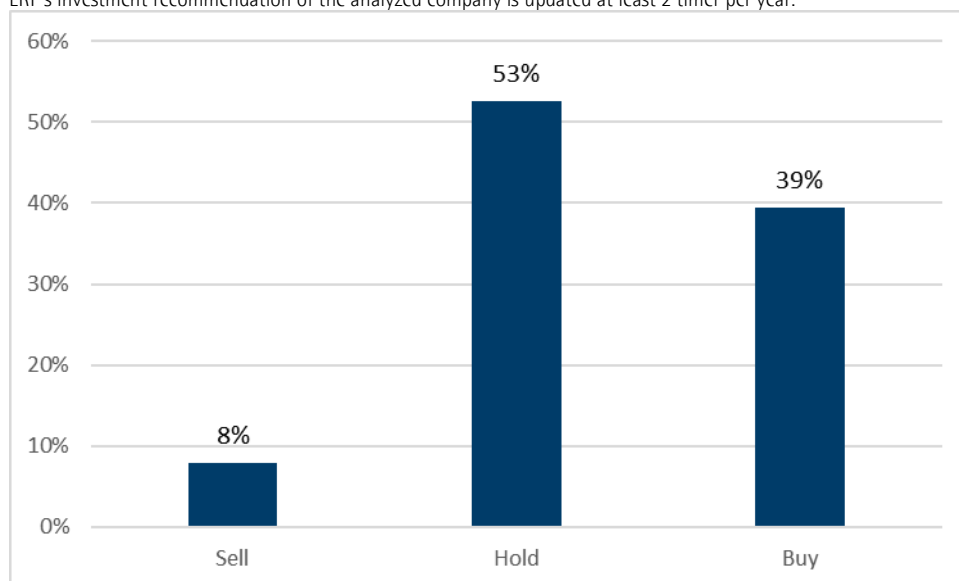
Evli Research Partners Plc ("ERP") uses 12-month target prices. Target prices are defined by utilizing analytical techniques based on financial theory including (but not limited to) discounted cash flow analysis and comparative valuation. The selection of valuation methods depends on different circumstances. Target prices may be altered on the basis of new information coming to light in the underlying company or changes in interest rates, changes in foreign exchange rates, other securities prices or market indices or outlook for the aforementioned factors or other factors that may change the conditions of financial markets. Recommendations and changes by analysts are available at

<https://research.evli.com/JasperAllModels.action?authParam=key;461&authParam=x;G3rNagWrtf7K&authType=3>

Investment recommendations are defined as follows:

Target price compared to share price	Recommendation
< -10 %	SELL
-10 - (+10) %	HOLD
> 10 %	BUY

ERP's investment recommendation of the analyzed company is updated at least 2 times per year.



The graph above shows the distribution of ERP's recommendations of companies under coverage in 1st of February 2019. If recommendation is not given, it is not mentioned here.

Name(s) of the analyst(s): Salokivi

This research report has been prepared by Evli Research Partners Plc ("ERP" or "Evli Research"). ERP is a subsidiary of Evli Bank Plc. Production of the investment recommendation has been concluded on 1.10.2019, 9.00. This report has been published on 1.10.2019, 9:30.

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