

Embracer Group

Strong beat vs. cons and 8 acquisitions

- Adj. EBIT SEK 712m, +65.2% vs. ABG, +64.7% vs. cons
- 8 new acquisitions to add ~15% to current FY Adj. EBIT
- Positive prel. '20/21e consensus Adj. EBIT ests of ~25%

Q1'20/21e details

Embracer delivered a strong quarter today, which beat consensus expectations, with an Adj. EBIT of SEK 712m, +65.2% vs. ABGSCe and +64.7% vs. consensus. Reported net sales were SEK 2,069m, +25.6% vs. ABGSCe and +23.4% vs. consensus. Driven by new releases performing above management expectations and strong back catalog, bolstered by COVID-19 tailwinds which aided player engagement and the amount of players as stay-at-home regulations were enforced. Ultimately the Games segment saw revenues of SEK 1,622m, and as such represented 78.4% of total revenues, a new record. The Games segment grew 71% organically y-o-y, and Embracer will now start reporting organic growth as an KPI, which will enhance visibility to investors. A total of 8 acquisitions has been announced in conjunction with the report, the most important being Metro Exodus developer 4A Games. We expect the acquisitions alone to add ~15% to current FY Adj. EBIT, and also benefit Embracer by keeping Metro Exodus royalties in-house.

We expect positive consensus Adj. EBIT revisions

We can see consensus making positive estimate revisions to Adj. EBIT for 2020/2021e of approximately ~25% on the back of the new acquisitions and on the report.

Final thoughts

Embracer has been on a very strong run this year, up ~98% YTD and ~85% since the through in March, driven by gaming being one of the few sectors that actually benefited from COVID-19, and by large international gaming peers like Ubisoft and Take-Two Interactive confirming strong COVID-19 tailwinds in the Apr-June period. In terms of the Q1'20/21e report, we believe that there have been a lot of expectations in regards to acquisitions, which given today's news with 8 new acquisitions, have been more than satisfied. There is a conference call/webcast at 09:00 CET, dial-in: SE: +46856642693, UK: +443333009273, U.S.: +18335268383 link: <https://tv.streamfabriken.com/embracer-group-q1-2020-2021>

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Fast comment

Company-sponsored research: Not rated

Share price (SEK)	10/08/2020	143.0
Software, Sweden		
EMBRACB.ST /EMBRACB ST		
MCap (SEKm)		53,246
MCap (EURm)		5,179.0
Net debt (EURm)		-147
No. of shares (m)		372
Free float (%)		60.0
Av. daily volume (k)		939.5

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Q1'20/21 deviations vs. ABGSC vs. FactSet consensus

Deviation to estimates (SEKm)	Actual		ABGSC	Deviation		Consensus	Deviation	
Net sales	Q1'19/20	Q1'20/21	Q1'20/21e	SEKm	%	Q1'20/21e	SEKm	%
Games - THQ Nordic	185.0	487.8	350.0	137.8	39.4%			
Games - Deep Silver	373.0	612.7	515.0	97.7	19.0%			
Games - Coffee Stain	83.0	172.5	107.5	65.0	60.5%			
Games - Saber Interactive	n.a.	349.2	275.0	74.2	27.0%			
Games Total	641.0	1622.2	1247.5	374.7	30.0%			
Partner Publishing/Film	501.0	446.5	400.0	46.5	11.6%			
Group	1142.0	2068.7	1647.5	421.2	25.6%	1677.0	391.7	23.4%
COGS	-528.0	759.9	-719.2	1479.1	-			
Gross profit	614.0	1308.8	928.3	380.5	41.0%	963.0	345.8	35.9%
Operating costs	-400.6	-656.1	-593.1	-63.0	-			
EBITDA	389.4	965.1	658.9	306.2	46.5%	681.0	284.1	41.7%
Depreciation & amortization	-308.3	-746.0	-683.3	-62.7	-			
Adj. EBIT	203.8	711.7	430.8	280.9	65.2%	432.0	279.7	64.7%
EBIT	81.1	219.1	-24.3	243.4	-	-13.5	232.6	-
Net financials	2.0	-35.6	-6.0	-29.6	-			
Taxes	-30.5	-93.0	0.0	-93.0	n.a.			
Adj. Net profit	175.4	583.1	424.8	158.3	37.3%	380.0	203.1	53.4%
Net profit	52.6	90.5	-30.3	120.8	-	6.9	83.6	1211.6%
EPS Adj. (SEK)	1.70	1.57	1.14	0.43	37.3%	1.02	0.55	53.5%
EPS Basic (SEK)	0.51	0.24	-0.08	0.3	-	0.15	0.1	62.0%
Net sales growth y-o-y	Q1'19/20	Q1'20/21	Q1'20/21	Percentage point		Q1'20/21e	Percentage point	
Games - THQ Nordic	27.1%	163.7%	89.2%	74.5 pp		n.a.	n.a.	
Games - Deep Silver	10.3%	64.3%	38.1%	26.2 pp		n.a.	n.a.	
Games - Coffee Stain	n.a.	107.8%	29.5%	78.3 pp		n.a.	n.a.	
Games - Saber Interactive	n.a.	n.a.	n.a.	n.a.		n.a.	n.a.	
Games Total	15.4%	153.1%	51.7%	101.4 pp		n.a.	n.a.	
Partner Publishing/Film	41.6%	-10.9%	-20.2%	9.3 pp		n.a.	n.a.	
Group	26.4%	81.1%	20.2%	61.0 pp		46.8%	34.3 pp	
Margins	Q1'19/20	Q1'20/21	Q1'20/21	Percentage point		Q1'20/21e	Percentage point	
Gross margin	53.8%	63.3%	56.3%	6.9 pp		57.4%	5.8 pp	
EBITDA margin	34.1%	46.7%	40.0%	6.7 pp		40.6%	6.0 pp	
Adj. EBIT margin	17.8%	34.4%	26.1%	8.3 pp		25.8%	8.6 pp	
EBIT margin	7.1%	10.6%	-1.5%	12.1 pp		-0.8%	11.4 pp	
Adj. Net margin	15.4%	28.2%	25.8%	2.4 pp		22.7%	5.5 pp	
Net margin	4.6%	4.4%	-1.8%	6.2 pp		0.4%	4.0 pp	

Source: ABG Sundal Collier, FactSet, company data

Embracer Group

SEKm	2018	2019	2020e	2021e	2022e
Sales	5,754	5,249	7,533	9,035	9,545
<i>Sales growth (%)</i>	1,033.7	-8.8	43.5	19.9	5.6
EBITDA	1,593	1,821	2,673	3,392	3,820
<i>EBITDA margin (%)</i>	27.7	34.7	35.5	37.5	40.0
EBIT adj	575	345	-81	312	580
<i>EBIT adj margin (%)</i>	10.0	6.6	-1.1	3.4	6.1
Pretax profit	545	409	-105	292	560
EPS rep	4.22	0.91	-0.29	0.58	1.11
<i>EPS growth (%)</i>	140.4	-78.5	-131.9	300.1	91.9
EPS adj	4.22	0.91	-0.29	0.58	1.11
DPS	0	0	0	0	0
EV/EBITDA (x)	1.6	11.8	19.4	15.0	13.1
EV/EBIT adj (x)	4.4	62.1	-641.7	162.8	86.2
P/E (x)	11.4	78.0	-493.7	246.7	128.6
P/E adj (x)	11.4	78.0	-493.7	246.7	128.6
EV/sales (x)	0.4	4.1	6.9	5.6	5.2
<i>FCF yield (%)</i>	-47.3	-4.2	1.0	2.2	1.4
<i>Dividend yield (%)</i>	0	0	0	0	0
Net IB debt/EBITDA	-1.4	-0.5	-0.6	-0.8	-0.9
<i>Lease adj. FCF yld (%)</i>	-47.3	-4.2	1.0	2.2	1.4
Lease adj. ND/EBITDA	-1.4	-0.5	-0.6	-0.8	-0.9

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