

Software & Services, Sweden | September 12, 2018

# THQ Nordic

## Game and fortune

A business model that generates capital-light growth

In a sweet spot for acquisitions in a growing sector

We initiate coverage at BUY with a target price of SEK 290

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THQ Nordic is relatively new to investors after its IPO in late 2016. Its growth has been nothing short of explosive, and we see good potential for continued growth ahead, supported by the strong pipeline and a net cash position. We therefore initiate coverage at BUY.

Software &amp; Services, Sweden

# THQ Nordic

## Game and fortune

- Generates lower risk, capital-light growth
- EBITDA could double in two years
- Appealing opportunity for entry ahead of new releases; BUY

### Buying proven performers lowers risk

THQ Nordic is a game developer and publisher, mainly for PCs and consoles, operating under the THQ Nordic and Deep Silver brands. Its strategy is to buy the IP for successful games series and then release new or updated versions to its fan base, widening distribution and porting to different platforms (e.g. making a PC game playable on console). It also pursues large acquisitions, which have so far proved very successful, allowing the company to grow quickly. The gaming market is projected to grow by 9% a year until 2021, but we expect THQ Nordic to outpace this given its upcoming major releases.

### Share price could be 70% higher in 2020

We think THQ Nordic, as it stands today, could generate revenue of SEK 6bn in 2020 and EBITDA of SEK 2.1bn, driven by AAA titles (high budget games) and increased monetisation of its back catalogue. Applying an EV/EBITDA multiple of 12x results in upside potential of 70%. With estimated deal capacity of over SEK 5bn by 2020 (SEK ~3bn today) and assuming an acquisition multiple of 10x, we think acquisitions could add another SEK 500m to EBITDA.

### Catalysts: new games and a stellar M&A track record

THQ Nordic has so far spent roughly SEK 1.4bn on acquisitions to create a portfolio that we estimate will generate EBITDA of SEK 1.6bn in 2019. Given the value that deals have historically added, we are in no doubt that the next material catalyst will be the next transaction. The group's recent rights issue ensures that funding is secured when the next opportunity arises. The pipeline in the game development portfolio also looks promising, in our view, with Darksiders 3 coming in November, Metro Exodus in February and Biomutant in Q3 2019. We initiate at BUY with a target price of SEK 290, although we recognise that the announcement of a significant deal could push that higher.

*Company page on Handelsbanken's REON*

SEKm	2016	2017	2018e	2019e	2020e
Sales	302	508	3,884	5,079	6,094
Sales growth (%)	41.8	68.1	665	30.8	20.0
Gross margin (%)	60.6	70.9	42.7	47.6	49.0
EBITDA adj	132	273	1,023	1,598	2,102
margin (%)	43.8	53.7	26.3	31.5	34.5
EBIT adj	95	188	425	802	1,126
margin (%)	31.5	37.1	11.0	15.8	18.5
EBT	93	182	408	794	1,118
EPS rep (SEK)	1.18	1.88	3.70	6.9	9.9
EPS adj (SEK)	1.18	1.88	3.70	6.9	9.9
Y-o-y growth (%)	38	60	97	87	43
P/E adj (x)	28.2	42.1	49.7	26.5	18.6
P/BV (x)	6.9	5.9	5.6	4.6	3.7
ROE adj (%)	33.5	19.6	15.7	19.1	22.1
EV/EBIT (x)	23.7	30.3	33.6	17.1	11.5
EV/EBITDA (x)	17.0	20.9	14.0	8.6	6.1
EV/sales (x)	7.5	11.2	3.7	2.7	2.1
FCF adj yield (%)	-2.4	-3.1	5.9	3.7	4.8
Tot DPS	0.00	0.00	0.00	0.00	0.00
Net debt/equity (%)	-40.2	-53.3	-66.4	-71.7	-75.2

Source: Handelsbanken Capital Markets

## Initiating coverage

<b>S</b>	<b>R</b>	<b>A</b>	<b>B</b>
Sell	Reduce	Accumulate	<b>BUY</b>

In-depth report September 12, 2018, 07:11 CET

<b>Share price (SEK) Sep 11</b>	<b>183.8</b>
Market cap (EURm)	1,546
Market cap (SEKm)	16,203
No of shares (m)	88
Free float (%)	44.1
Avg daily volume ('000)	130
Avg daily value (EURm)	2
Bloomberg	THQNB SS
Reuters	THQNO.ST

Web address: [Link to company website](#)  
IR web address: [Link to IR website](#)

Target price, inc. div. (SEK)	290
Expected total return (%)	57.8
DCF value (SEK)	261

<b>Balance sheet 2017</b>	
Net debt (SEKm)	-572
Net debt/equity (%)	-53.3
ROE (%)	19.6
ROIC (%)	76.5

Main owners	Votes (%)	Capital (%)
Wingefors Lars Eric Olof	55.9	40.9
Stenberg Bo Erik	12.1	8.8

## Absolute and relative performance



Share performance (%)	-1m	-3m	-12m
Absolute:	-1.3	-11.2	145
Absolute EUR:	-2.0	-13.4	124
Relative DJStoxx:	0.67	-9.6	129
52w range (SEK):			217.5 / 68.25

Source: FactSet

## Investment case

In a nutshell, THQ Nordic is all about allocating capital in a highly ROI-efficient way. First, the company acquires a game portfolio with IP (Intellectual Property). Second, distribution is maximised by making the titles available across all relevant platforms, e.g. a PC game could be made playable on consoles. This process is known as porting. IP is leveraged by focusing on popular and underutilised game franchises, where small investments in remastering a game, e.g. updating graphics, fixing bugs, can result in significant returns, as digital distribution can generate high gross margins even at lower retail prices. The company also mainly develops sequels, which reduces development risk, in our view, as the core fan base is likely to buy the new title and sales of older titles can also see a boost. The IP portfolio is brimming with development opportunities and exciting releases for the coming quarters, in our view. We see a good entry point and initiate at BUY.

THQ Nordic has transformed its business many times	<b>What does THQ Nordic do?</b> THQ Nordic is a game developer and publisher, mainly targeting PCs and consoles. It has a wide and diversified game portfolio, following its acquisitions of the Austrian game publisher JoWood in 2011 and IP from the American game developer and publisher THQ in 2013 after its bankruptcy. The company later bought the rights to the name THQ having previously been called Nordic Games. It acquired Koch Media in 2018 and has also made a few smaller acquisitions along the way. For games that THQ Nordic develops itself, the profitability (and the risk) is higher. Publishing entails THQ Nordic handling distribution and marketing for the developer supported by a strong market presence in Europe.
The CEO controls 56% of the votes	<b>Heavily incentivised management team</b> THQ Nordic is still run by the entrepreneurs that founded the company in 2011 when the IP from the Austrian game publisher JoWood was acquired. The CEO Lars Wingefors owns almost 41% of the capital and controls 56% of the votes. The CFO holds almost 9% of the capital and 12% of the votes. Other key employees also hold shares worth substantial sums, which means that management's interests are very much aligned with shareholders, we believe, while also providing stability to the management structure.
A track record of business acumen	We see THQ Nordic's explosive growth as persuasive evidence of the management team's business acumen and ability to make sound financial decisions; investing in the company is to a high degree an investment in these individuals.
What's next?	<b>Acquisition firepower was added in June</b> The company raised SEK 1.5bn in equity to "finance new acquisitions and increase the pace of investments". The last time it did this the company acquired Koch Media five months later. Given the success of past acquisitions, we would view a new acquisition as a catalyst for the share, as well as a driver of estimates, as we do not include any unannounced acquisitions in our numbers. THQ Nordic's business entails an inherent risk, and to avoid adding unnecessary financial risk, the company is cautious about taking on too much debt.
Four AAA titles under development	<b>The game pipeline is powered up</b> One of the most anticipated titles within the "original" THQ Nordic line-up is Darksiders 3 which is expected to come out in November. An even bigger title will be Metro Exodus in February, which was added as part of the Koch Media acquisition. We are also positive about the game Biomutant, scheduled for release in summer 2019. The pipeline also holds 34 unannounced and 17 announced games (including the three mentioned above). If a sequel to Saints Row were to be announced, possibly at the E3 expo in June, sales of the back catalogue would probably be buoyed and sentiment toward the share would strengthen, we believe.
Holds more than 100 items of IP from which to create games	

The Koch Media acquisition lifted the company to a new level

We expect a rising EBITDA margin as the mix tilts toward game development

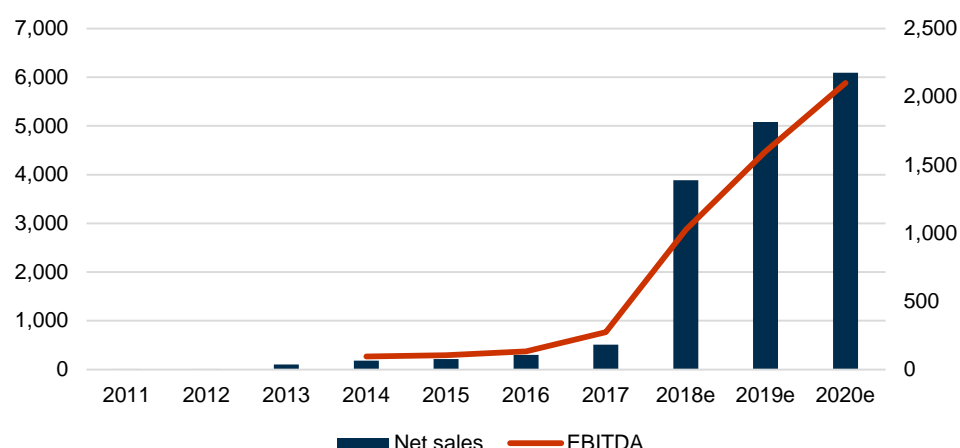
Structural growth if pitfalls can be avoided

THQ Nordic has shown it can navigate difficult waters

We believe the current recipe can deliver more success

Valuation does not reflect the growth potential or the catalysts, in our view

**Figure 1: Sales and EBITDA progression and HCM estimates**



Source: Handelsbanken Capital Markets, Company data. Note that we do not have EBITDA data before 2014

### The gaming market is enjoying structural growth

The market researcher Newzoo expects the gaming market to grow at a CAGR of 9% (PC and console games at a CAGR of around 4.5%). Several factors are behind this, we believe. Demography is one with younger people playing games more often than previous generations. Geography is a second factor with an increasing number of people in emerging markets able to play games (PCs and consoles are quite costly investments). Third, game companies have become better at charging the customer under different business models. This is especially evident within mobile, where games are free to play when downloaded, but in-game purchases can create a steady revenue stream. This contrasts with PC and console games, which traditionally involve an upfront payment for unlimited access to a game. There have been changes in this area recently, however. For example, the game Fortnite, developed by Epic Games, is free to play on PC and consoles, but offers in-game purchases.

### We initiate with BUY and a target price of SEK 290

That the company's successful recipe has created immense shareholder value over a short period of time is beyond dispute. The natural question becomes, can this continue? As THQ Nordic still only has a fragment of the gaming market, the future potential would seem to be huge. Acquisitions as successful as that of Koch Media (see page 9) will be hard to replicate, in our view; however, when we look at the current pipeline and factor in the well capitalised balance sheet, we believe consensus estimates for 2020 and beyond will be defeated with ease.

These prospects must of course be balanced against valuation, but even here we find support, given that THQ Nordic trades at a discount to its larger sector peers. It has a less appealing mix, given the larger share of physical distribution, but on the other hand, the growth potential is much higher; THQ Nordic could still double its sales over 3-4 years, in our view, while this would be practically impossible for a name like Electronic Arts or Activision Blizzard, we believe, as they have more safeguarded/recurring cash flows.

Given the company's strong growth (both past and projected), we argue that investors have to look further into the future when valuing this stock compared to more traditional and mature companies. We argue that it is reasonable to expect the share to trade at an EV/EBITDA multiple of 12x, which on our 2020 estimates would translate into an EV of about SEK 25.2bn. With no acquisitions, that implies imply a market cap of around SEK 28.5bn (SEK 323/share), ~70% higher than the current market cap, which we discount for time value (by ~10%) and round to SEK 290.

# Business model and strategy

THQ Nordic has expanded its sales and profits very quickly over recent years. This is a result of its business model and key acquisitions of brands/franchises from JoWood in 2011, THQ in 2013 and Koch Media in 2018. The core business model can be simplified into increased distribution, asset care of old IP and the launch of sequels. Other business opportunities include in-house development, acquisitions, IP licensing and building a mobile game portfolio. We consider the business model to be intelligent, although the company is very dependent on the knowledge of CEO and founder Lars Wingefors. Looking ahead, we expect THQ Nordic's ability to execute on its in-house game development to be a key driver of future growth.

THQ Nordic has created value from acquisitions using a three-step model

## Core business model

In a nutshell, THQ Nordic's core business model is to buy the brand/franchise of a game series (often old ones) that has a following of fans and/or good reviews. The franchise then goes through the following three steps:

### Increased distribution

THQ Nordic expands distribution, including via both physical distribution points and digital distribution points, generating higher sales.

### Asset care

THQ makes games playable on other platforms (known as porting), remasters old games (releasing them with better graphics and/or with technical improvements, bug fixes etc.). It can also release downloadable content (DLC). Example of DLC are new levels, characters, and weapons or other additions, allowing the same game to be played in new ways. This only requires a small amount of capital and typically generates good returns, therefore typically generating a very high ROI.

### Expansion packs/sequels

Often an extension of asset care, THQ can release new content for games that it already knows are popular with its fan base. The development risk here is smaller than releasing a completely new game franchise as there is a good chance that some (or many) fans will want to buy more content from a franchise they like; however, this naturally entails more risk and requires more capital than the asset care stage. THQ Nordic's recently released in-house developed sequels have achieved mixed results; however, we note that the upcoming sequels Darksiders 3 and Metro Exodus are highly anticipated, with a lot of attention on, for example, YouTube. Of the three core areas, this area is where the company sees the biggest potential in terms of sales. Following the acquisition of Koch Media, the company now has four additional AAA-titles (high budget games) in development.

## Non-core business model examples

### In-house development

THQ only recently started releasing its own titles, such as Elex and Spellforce 3. Before the Koch Media acquisition, a THQ game could have a budget of up to SEK 125m, but with titles like Metro Exodus in the making, that number is now significantly higher. This naturally means that the risks are higher; but the potential rewards are also higher. If THQ is successful with a game launch that is developed in-house, margins are higher and THQ can then leverage the concept through its core business model (expansions, DLC, etc.). Right now, we see good potential for Biomutant, developed by Experiment 101, which THQ acquired in 2017.

The in-house development of games is riskier, but the potential reward is also greater

Biomutant brings something new to the table, in our view



### Further acquisitions of game development studios

If THQ can identify a skilled game development studio, then it makes sense to acquire it, in our view, as THQ owns many franchises and already has the publishing capabilities.

### Acquisitions of smaller publishers

We would view these as a type of “bolt-on” acquisition.

### Grow its mobile game portfolio

The mobile gaming industry is different (see the [market chapter](#)), but it is nevertheless a big industry. THQ Nordic is taking a careful approach here to safeguard profits and has been successful in terms of downloads, but not financially, at least not yet. Our view is that it is more difficult to leverage IP in mobile games, judging by what we have seen so far.

### Explore IP licensing

THQ Nordic owns a lot of IP due to its acquisitions. Licensing some of it out would be a low capital cost way to create some additional income, perhaps especially on the mobile platform. The risk lies in the damage a bad game could do to the brand, but given how central IP management is to THQ Nordic’s core, we expect it to be able to handle this risk.

### Our thoughts on the business model

We note that THQ’s strong growth and past success can be attributed to the successful execution of its distribution broadening and asset care, combined with some large and impactful acquisitions. The success in these areas demonstrates the business acumen of the current management, in our view. The CEO and founder Lars Wingefors is therefore more important for the future success of the company than would be the case for most other companies, in our view. It is therefore reassuring that he is the biggest shareholder of the company by a wide margin and has stated that he wants to stay in this business for decades to come.

Looking ahead however, we expect distribution broadening and asset care to shrink as a share of the total business, as we expect these types of deals to become harder to come by for the right price; there is not an infinite amount of underutilised, popular games for sale. To drive growth in the future, it will become increasingly important for THQ to develop successful games of its own, be they sequels or new franchises. We therefore consider it positive that it has already moved down this path, as making games requires a lot of trial and error. Furthermore, additional acquisitions could also create value, but it is by definition difficult to forecast this element with any certainty, in terms of size or timing, which is why we do not include any M&A in our estimates. Instead, we try to illustrate what this could be worth in the [M&A section](#).

The licensing potential from the mobile portfolio is probably the most accretive strategy in the medium term

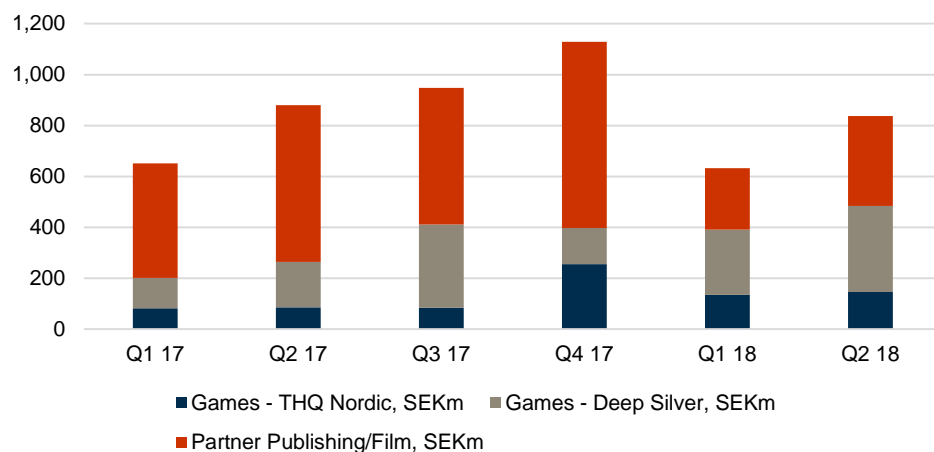
We think THQ has the right captain on its ship

We expect in-house development to be of growing importance

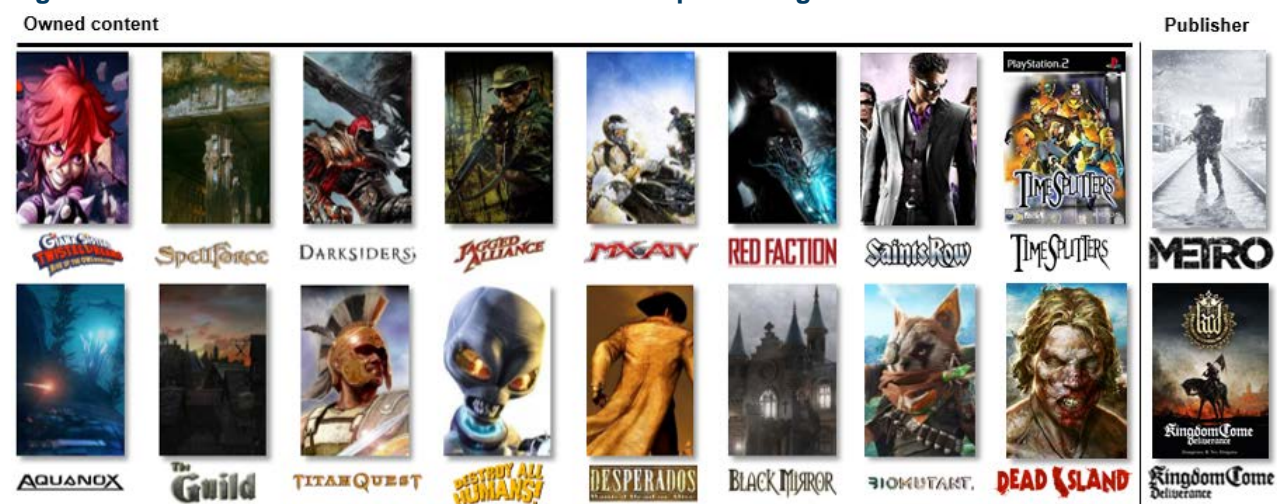
**Figure 2: Sales split by segment**

All these segments are naturally affected by the timing of game releases

Looking ahead, we expect the game segments to grow faster than the publishing segment



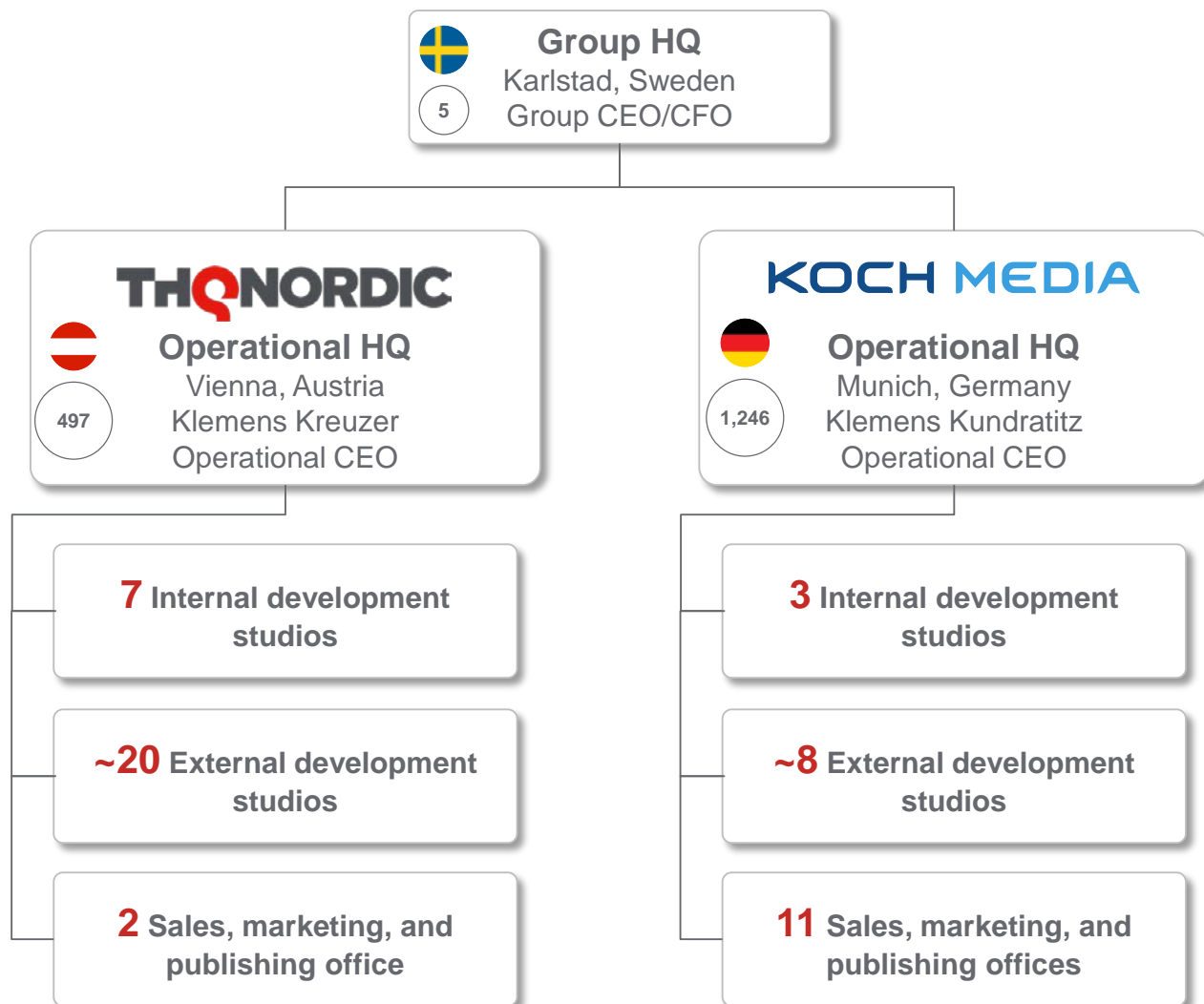
Source: Handelsbanken Capital Markets, Company data

**Figure 3: Quick overview of selected franchises and publishing deals**

Source: Handelsbanken Capital Markets, Company data. Note that THQ Nordic holds an exclusive license for the Metro series.



**Figure 4: Organisational structure**



Source: Handelsbanken Capital Markets, Company data. The numbers in the circles represent the headcount.

# The acquisition of Koch Media changed the picture

In a way, THQ Nordic has been defined by its successful acquisitions. The acquisition of Koch Media in Q1 2018 was the biggest yet and took the company to a completely different level in terms of revenue, and thereby affected mix and margins. Here we present a summary of that deal.

Quite the Valentine's Day gift for shareholders

On February 14, 2018, THQ Nordic announced the acquisition of Koch Media; a company with revenue many times that of THQ Nordic. This took the market by surprise and the share soared. The deal was mainly financed by a share issue that took place before the announcement of the deal. As THQ Nordic took in another round of financing a few months ago, we see it as a question of when, rather than if, a new acquisition will take place. However, it is likely to be hard to find another Koch Media.

## Quick summary of Koch Media

Koch Media was no stranger to THQ Nordic or the CEO

Koch Media has a game development unit, Deep Silver, which owns extensive IP, including the IP for Saints Row, which it bought from the original THQ bankruptcy (went bankrupt due to bad financial decisions), and which THQ Nordic (at the time Nordic Games) could not afford. Koch Media also has a large partner/publishing unit and is a big distributor of physical games, which explains the lower profitability. THQ Nordic partnered with Koch Media to release Elex, meaning the companies already knew each other from before.

Koch Media suffered the effects of unsuccessful game releases

## How could THQ Nordic buy Koch Media for such an attractive price?

Many investors were surprised by the price for Koch Media, at an EV of EUR 121m for a business that generated an EBIT of roughly EUR 30m in the preceding nine months. Part of the explanation was that Koch Media had suffered huge write-downs after the releases of Agents of Mayhem and Homefront Revolution, which did not sell well enough to recoup the cost of development. From THQ Nordic's perspective, the timing was therefore very good.

## What this means for the future

THQ Nordic was already familiar with the publishing business and has simply scaled up the size of this area, as a result of the acquisition. Physical distribution is losing market share to digital distribution, but still has a role to play; console gamers in particular appear to like to have a physical copy in their collection.

THQ Nordic's pipeline is stronger than ever before

More interesting is that THQ Nordic took over four "AAA games" in development (Metro Exodus, Dead Island 2 and two unannounced titles). Metro Exodus is the type of game with the potential to recoup a meaningful share of the acquisition money by itself, in our view, and is expected to be released in Q1 2019. THQN also got to reconnect with game studios that have made games for some of its IP, such as Red Faction. Furthermore, THQ got the IP for Saints Row, which is arguably one of the most famous game franchises of all time. Given THQ Nordic's track record of making sequels to popular franchises, we believe it is fairly reasonable to expect a new Saints Row game to come out, although a company preference for working with key members of the original team means there could be a delay if those individuals are busy with other projects.

The development budget for the biggest games is significantly larger than previously

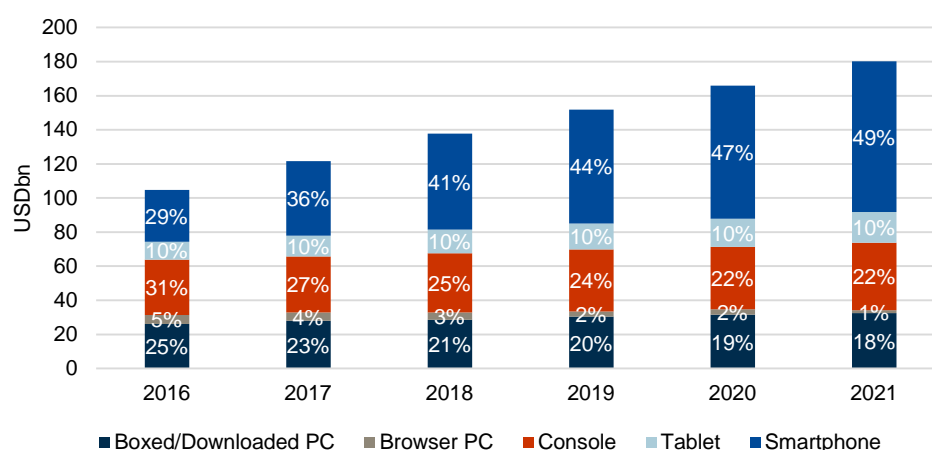
In terms of organisation structure, there appears to be no intention to merge the original THQ Nordic with Koch Media. The acquisition was thus not synergy-driven, and both entities will continue to operate separately.

Koch Media also has a niched film division, but as this area is quite small in relation to the whole company we do not place much focus on this area, as it is not going to be a key driver for the share, in our view.

# The gaming market and platforms

The global games market has shown strong growth historically, and the market estimates from Newzoo are continually being revised up, as sales keep beating expectations. As of June, game software revenue is expected to be USD 138bn in 2018, up 13.3% from 2017. The market is expected to generate sales of USD 180.1bn in 2021, representing a CAGR of 9.3%. Our view is that this number could prove conservative, as the PC and console markets have still not transitioned fully to newer payment models which see the player pay for content and/or progression. These models are driving the strong growth within mobile. Once PC and console game developers manage this transition, the monetisation per user is likely to rise.

**Figure 5: Global games market, software revenue, forecast by Newzoo**



9.3% CAGR for 2018-21 could prove conservative

If we add hardware and peripherals, gaming is already a bigger business than professional sports

Source: Handelsbanken Capital Markets, Newzoo

Asia and mobile are driving market growth

If we look at the split across platforms, we can see that console and PC are expected to shrink as a percentage of the total market (expected CAGRs of 4.3% and 4.6% are lower than that of the broader market). Much of the growth in gaming is found in Asian countries, where the penetration of PCs and consoles is much lower. The average revenue per customer is higher in Europe and the US, where PCs and consoles are more dominant. Much of the growth is instead expected to come from the smartphone segment, as mobile gaming is growing rapidly (up 29% in 2018), and is expected to comprise 49% of the global market in 2021.

## Where THQ Nordic fits into the picture

THQ Nordic has focused on PC and console games, but is also experimenting carefully in mobile

THQ Nordic is currently present on PC and consoles, and thus derives most of its revenue from Western countries. However, the company is currently working on developing mobile games to gain exposure to this area. Mobile games are very different from PC/console games and are burdened by very stiff competition. THQ is experimenting with its mobile games in selected markets, and it is striving to increase monetisation and reduce churn from its games. Once the expected lifetime value (LTV) of a customer comfortably exceeds the customer acquisition cost (CAC), it makes sense from a NPV point of view to accelerate market spend for the game.

## How PC/console games differ from mobile games

### PC/console offers a higher barrier to entry

Mobile games typically have simpler graphics and less depth/story. This naturally varies from game to game, but it is clear that mobile games offer lower barriers to

<p>To build franchise value, you need a loyal player base</p>	<p>entry. This is evident in the large amount of mobile game developers compared to the much smaller amount of game studios that develop PC and console games.</p> <p><b>PC/console games typically connect more with the player</b></p> <p>Many PC/console games offer more story and depth, which encourages a player to become more emotionally involved in the game and its characters. This type of behaviour builds loyalty, both toward the franchise and the game developer.</p>
<p>Fortnite went against the PC trend with its free-to-play model</p>	<p><b>PC/console games typically cost money up front</b></p> <p>Mobile games are often free to download, but then encourage purchases in-game and/or include advertisements. These types of games are referred to as, among other things, “freemium” or “pay to win”, as a paying user will have a significant advantage vs. a non-paying user in most games. A non-paying user will therefore have a natural incentive to pay, if he or she does not like losing.</p>
<p>THQ Nordic has generated good returns by releasing DLC and remasters</p>	<p><b>PC/console games typically cost money up front</b></p> <p>PC/console games, on the other hand, usually cost money up front (a tradition from a time when distribution was fully physical), but then usually allow players to experience the full contents of the game. This has changed slightly in recent years, as game developers now include in-game transactions, such as loot boxes, for example, where the player can choose to pay more and receive new looks or other exclusive content. The global smash hit Fortnite is an example of an extremely successful “free-to-play” game. Game expansions or DLC is another way for a game developer to boost sales, as a player can pay to receive new content, such as new levels, new game modes or a new character (your imagination sets the limits). THQ Nordic has been successful in launching expansions and DLC packages within its asset care of acquired franchises to a fan base often eager to dig into new content. If payment models shift toward the “pay for content/increased game value”, then the average revenue per sold PC/console game could rise, which would lead to higher growth than the current expected market CAGR of 4.3-4.6%.</p>
<p>“Hard-core” vs. “casual”</p>	<p><b>PC/console games typically have longer gaming sessions</b></p> <p>Many mobile games provide quick loading times and a game mode that allows for short sessions of fun, as a person who is on the bus for 15 minutes is looking for quick entertainment. On the other hand, PC/console games often take longer to start up and are often used when the player knows that he/she has a bit of more time to game. A level might have to be completed before it can be saved, for example. There are naturally exceptions to this rule on both sides.</p> <p><b>“Hard-core” gamers typically prefer PC/console games</b></p> <p>Gamers who want to go deeper into a game and explore all the content, etc., tend to prefer PC/console games because of the longer gaming sessions and deeper involvement involved. These gamers are often called “hard-core” gamers, while the “casual” approach of mobile games attract “casual gamers” instead.</p>
<p>THQ has more physical sales due to its console exposure and publishing deals</p>	<p><b>How PC and console games differ from each other</b></p> <p>THQ Nordic has successfully implemented the “porting” of games, allowing them to be played across more platforms, increasing sales through broadening the addressable market. This is because most PC games will work on a console and vice versa; however, there are a few differences, which we outline below.</p> <p><b>Console games are largely still distributed through physical avenues</b></p> <p>Because of its console exposure, THQ Nordic still makes more sales of physical products than companies that develop purely for PC, where distribution is increasingly digital. However, in our view, while console game sales have been slower to digitalise, we expect the share of digital sales to increase over time as storage becomes cheaper and internet speeds increase. Our view is that the next</p>

generation of consoles might accelerate the digital distribution on consoles as hard drive sizes increase.

#### Mouse and keyboard vs. controllers

What is your Actions  
Per Minute?

These different types of input provide advantages in different types of game. The gaming experience for Real-Time Strategy (RTS) games is superior on the PC due to the mouse and keyboard. It is much faster to control your troops using a mouse, and the keyboard offers many keys for shortcuts to different actions. eSport professionals can perform between 300-600 Actions Per Minute (APM), i.e. 5-10 actions per second. The mouse also gives an advantage in shooter games such as Counter-Strike or Overwatch, although these types of games are highly playable and popular on consoles as well. Often, shooting games provide an aim assist functionality on consoles. Menu design also has to be different for consoles due to the lack of a mouse.

A controller's joystick might instead be more enjoyable in racing games, fighting games, sports games or platform games (such as Nintendo's Mario). However, it is possible to buy a controller for PCs as well, and vice versa.

#### Being in the living room instead of a smaller room

Consoles are better  
suited to social  
gatherings, in our  
view

Consoles are often connected to the household TV, meaning that there is often a couch in front of it. This encourages more social gatherings, while PCs are more of a solo pursuit (although a PC will often offer a multiplayer option online). That said, we note that there is a trend toward fewer games that support two or more people playing on the same screen, so called split screen.

#### PC games often feature better graphics

The most demanding games in terms of performance can be slow on consoles, as these have less processing power than a new gaming PC (especially older consoles). Hard-core gamers might also value the better "frames per seconds" (fps) on a PC, sometimes 100 fps or more, while consoles are limited to 60 fps.

## THQ Nordic's deal-making ability

A key ingredient to the company's explosive growth trajectory has been its ability to strike successful deals. A large part of the value creation stems from this, making it an important part of any assessment of what a share in THQ Nordic is worth. In this section, we review past deals and also give our view on future deals.

2011: Acquired JoWood Entertainment and subsidiary DreamCatcher Interactive. Included in the deal were more than 50 items of intellectual property and licenses.

2013: Acquired various items of IP from THQ for USD 4.9m, including titles such as Darksiders and MX vs. ATV. Interestingly, Koch Media bought the bigger titles that the company could not afford at the time, such as Saints Row.

2014: The company (then called Nordic Games) acquired the THQ trademark, which it used in a rebranding to THQ Nordic in 2016.

2017: Acquired Experiment 101, the developer of Biomutant.

2018, Acquired Koch Media; this was no small feat given that Koch Media was a much larger company than THQ, especially in terms of sales, due to its lower profitability. See more in the section "[The acquisition of Koch Media](#)".

From sales of SEK 8m in 2011 to where it is today

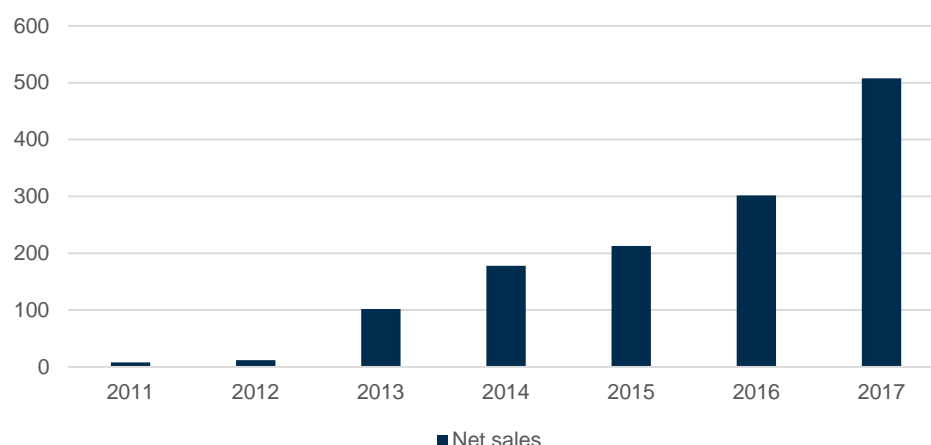
Sales really took off after the THQ acquisition, which accounted for 65% of sales in 2015

Koch Media took it to the next level in 2018 (not shown, as it dwarves the other bars)

The CEO's industry knowledge and contacts are key for effective acquisitions

Even if THQ Nordic cannot repeat the Koch Media deal, one half the size would be enough to create good value

**Figure 6: Net sales progression**



Source: Handelsbanken Capital Markets, Company data

There have also been a number of smaller transactions along the way as well. The consistent theme has been founder Lars Wingefors's ability to make value accretive acquisitions. With a long history of physical game distribution, Wingefors has extensive knowledge of different game franchises and who developed what. This has allowed him to take advantage of a market that has been highly competitive for the top names, but less so for the smaller players. Private equity has, for example, not really entered this market.

Looking ahead, we believe it is reasonable to expect the company to continue to make acquisitions; there are unlikely to be many more targets of the size of Koch Media, and if there are, they are unlikely to be for sale at the same multiples. Furthermore, it is important to note that THQ Nordic appears to take a prudent approach when it comes to its balance sheet. We find this wise given the inherent business risk. Therefore, larger acquisitions are likely to be financed through printing new shares, as the company has done in the past, in our view.

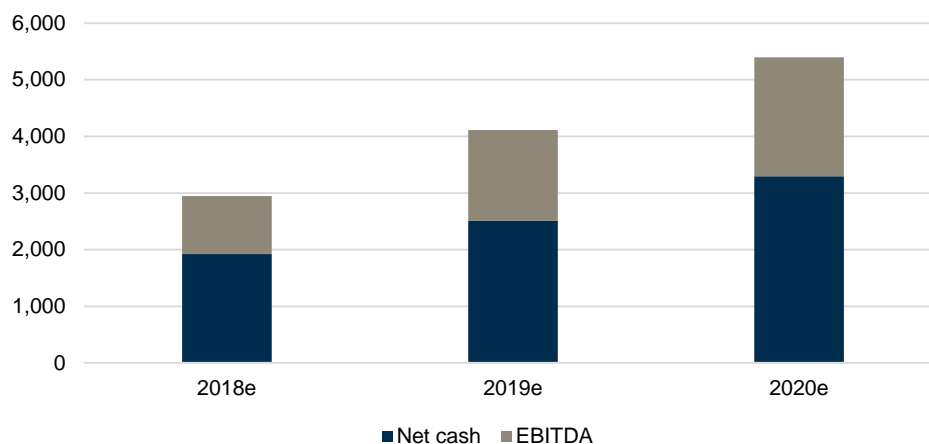


Given the current net cash position and projected cash flow over the coming years, we see potential for THQ Nordic to spend SEK 3-5bn on acquisitions by 2020, which at a multiple of 10x EBITDA, would add SEK 300-500m to EBITDA, or 30-50% to our 2018e EBITDA of SEK 1bn.

**Figure 7: Acquisition firepower at our estimates, assuming 1x EBITDA**

Given management's past aversion to debt, we use 1x net debt/EBITDA as a ceiling in this case...

... but in practice, it could gear higher than that



Source: Handelsbanken Capital Markets

THQ Nordic is still in something of a unique position

### Why other similar sized studios aren't pursuing the same strategy

We believe that there is a vacuum between large game developers/publishers who prefer to focus on their core business and smaller developers/publishers who focus on a few titles or certain genres. Swedish peer Paradox Interactive is, for example, looking for interesting acquisition objects, but wants to stay within its core genres. THQ Nordic has taken a more omnivorous approach, seeing any genre as interesting, as long as the asset is considered to be underdeveloped.

## THQ Nordic's game pipeline

In this section, we focus on the announced upcoming games that we believe are most significant, based on how much the franchise has sold previously. We also offer a view on the unannounced game portfolio, i.e. which of THQ Nordic's brands we believe it is likely to want to capitalise on in the coming years.

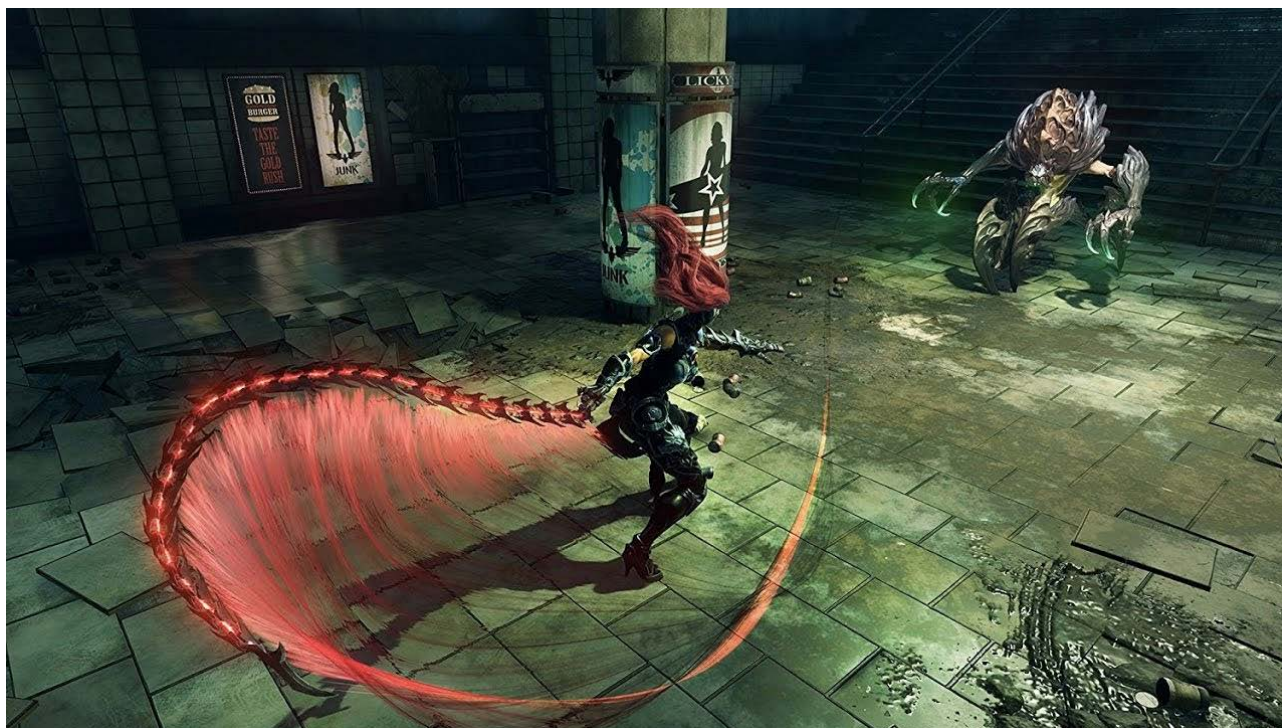
51 games under development; 17 announced

THQ Nordic currently has 51 games under development, of which 17 have been announced.

### Darksiders 3

Darksiders is an action-adventure role playing game (RPG) franchise that was launched in early 2010. The game takes place on a post-apocalyptic Earth, where mankind is extinct and angels and demons battle for control. The upcoming sequel is highly anticipated: the official reveal trailer has been viewed more than 3 million times on YouTube, while a gameplay video has been viewed nearly as many times. The game is set for release in 2018, and we currently expect 800,000 copies to be sold in Q4 at USD 60.

**Figure 8: Pre-alpha gameplay footage from Darksiders 3**



Source: THQ Nordic, IGN. Note that pre-alpha means that the picture is from a very early version of the game

### Biomutant

Biomutant is an action RPG in an open world environment where the player controls a raccoon-like creature in a world filled with mutated animals. The game is developed by the studio Experiment 101, and THQ was to be the publisher; however, in November 2017, it was announced that THQ Nordic would acquire Experiment 101. We view this as a logical step, given that Biomutant is expected to sell well.

The game was announced at Gamescom in 2017; a gameplay video on YouTube has been viewed almost three million times. We expect the game to launch during the third quarter on console and PC. We estimate an initial sales volume of 600,000 copies with a price tag of USD 60.

**Figure 9: Gameplay footage from Biomutant**



Source: THQ Nordic. Note that this is not from the final version of the game

### **Metro Exodus**

Through the Koch Media acquisition, THQ Nordic acquired Deep Silver, which has a long-term agreement to publish games for the Metro franchise. By October 2017, the franchise had lifetime sales of EUR 95m (12 million copies on all platforms). It is based on a book series by Dmitry Glukhovsky and is a first-person shooter (FPS) game set in a post-apocalyptic wasteland.

The trailer has been positively received and the game is expected to launch in Q1, 2019. It is planned to release on the same day as AAA-games “Days Gone” by Sony and Anthem by EA, which is unfortunate. However, our take is that these games are likely to be underperformers, as they have no current fan base and the footage does not appear to impress players, which is positive for Metro. We estimate an initial sales volume of 1 million copies with a price tag of USD 60.

### **Dead Island 2**

Dead Island is an open-world survival, horror action and RPG with EUR 185m in lifetime revenue (14 million copies sold). The sequel is under development by the external studio Sumo in the UK. It is as of yet unclear when the game will be released, but currently pencil it in for Q4 2019. We estimate an initial sales volume of 750,000 copies with a price tag of USD 60.

### **Shenmue 3**

Shenmue was ground breaking when it was first released for the Dreamcast in 1999 with its day and night system, variable weather effects, non-player characters (NPCs) with daily schedules and various mini-games. This generated something of a cult following. However, the game series entered a long hiatus after Shenmue 2 was released in 2001, but the original writer and producer is now on track to make a third release, expected to come out in Q3 2019.



## Unannounced pipeline

As of the Q2 report, THQ Nordic has 34 unannounced games in its pipeline; with its 100+ brands, it has plenty of opportunities ahead. Below, we outline some of the major franchises where THQ Nordic has not yet announced a sequel.

### Saints Row

Saints Row has been reunited with THQ...

In acquiring Koch Media, THQ Nordic received the IP for Saints Row, a game franchise which has sold more than 32 million copies across all platforms (earning USD 600m in lifetime revenue as of October 2017). The fourth game sold one million copies in its first week. Given THQ Nordic's strategy, a sequel to Saints Row should be expected, in our view, and the game studio behind it, Volition, has been looking for senior writers with humour, which the franchise is known for. An announcement could take place at the E3 expo in June or at Gamescom in August. Incidentally, Saints Row was part of the original THQ franchise.

### Red Faction

...as has Volition, the games studio behind Saints Row and Red Faction

THQ Nordic often mentions Red Faction as a franchise with large potential and great reviews, so it would not be surprising if the company were to announce a new Red Faction game (not only a remaster); however, so far, no sequel has been announced. With the Koch Media acquisition, THQ now has Volition, which developed the original game. However, Volition also developed Saints Row, which we expect would take priority.

### Painkiller

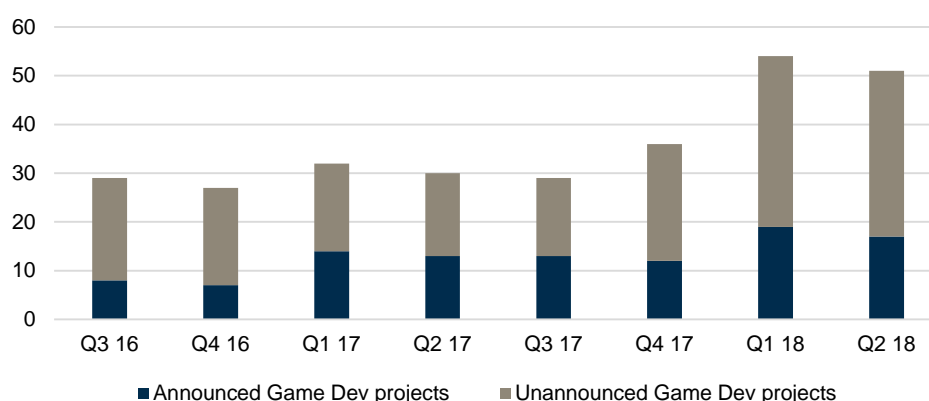
This FPS achieved critical acclaim with a very popular multiplayer element. While THQ Nordic has already published "Painkiller: Hell & Damnation" in 2012, that was more of a remake built on an older game, but with a visual makeover and new content rather than a completely new sequel. In our view, a new version of Painkiller is a possibility.

### All Humans Must Die

This is a game franchise where the player arrives on Earth as an alien and uses his or her weapons and powers to kill humans. The game was quite popular and THQ Nordic has said that there is a possibility of a sequel.

**Figure 10: Total game development projects**

Total Game Dev projects



Koch Media focuses on fewer and larger titles than THQ

Source: Handelsbanken Capital Markets

## Financials and forecasts

With a growing development budget, a large IP portfolio and a small market share, THQ Nordic is set to release more, bigger and better games. The big unknown factor is naturally how much each game will sell for, and at what point. The potential but also the risk to future estimates is therefore large, which management is aware of – this is why it keeps a strong balance sheet to be able to handle any possible disappointments.

### Forecasting sales

In our projections, we split sales into sales from new games, sales from the back catalogue and partner publishing/film sales. Our aim is to gauge the demand for new titles based on “hype”, quantified by YouTube views, Google searches, positive/negative community response and the tone toward the game from the fan base (as THQ mostly makes sequels). We also consider how many copies were sold of previous games in the franchise. New launches within a franchise also boost sales of previous versions from the same franchise supporting the back catalogue, e.g. the boost THQ Nordic saw to old Darksiders titles when it announced Darksiders 3. The partner publishing/film part of the business is a more mature market, where revenues are mostly dependent on the game pipeline.

THQ Nordic has been surprisingly good at handling the quarterly volatility

It should be noted that, in our view, it is very difficult to forecast sales figures for a gaming business, both near-term (how many copies will “game X” sell) and longer term; some of the uncertainty comes from the need to assume sales from unannounced titles, as two thirds of the pipeline has still not been announced. Looking further into the future, we must make sales assessments based on pipeline size, the size of investments as measured on the balance sheet, and finally, the company’s track record. Given the large amount of franchises that THQ Nordic owns, there is plenty of “ammunition” for future growth, in our view. We are impressed by how well the company has handled this volatility, spreading out different releases and using marketing to compensate with the back catalogue when needed. However, with the acquisition of Koch Media and the AAA titles that followed, delaying a large release would naturally cause swings in sales estimates.

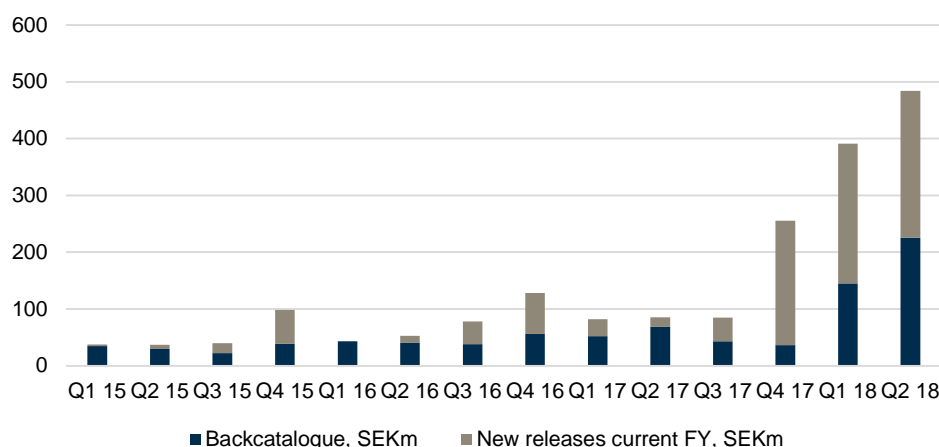
It is important to not release games prematurely

In our view, it is also important that the company has a strong enough financial position and the nerve to delay a game if necessary. A game that is released too early will sell far fewer copies, as reviews will reflect its incomplete nature. To take two extremes, Funcom released Age of Conan in 2008 without content all the way to the highest level, which caused the player base to flee rapidly. Conversely, Blizzard will delay or even cancel a bad game. This has helped to make it an extremely successful creator of a small number of widely sold and played games.

Q4 is a very important quarter for THQ Nordic

Koch Media integrated from February 14

**Figure 11: Revenue split, new games vs. back catalogue**

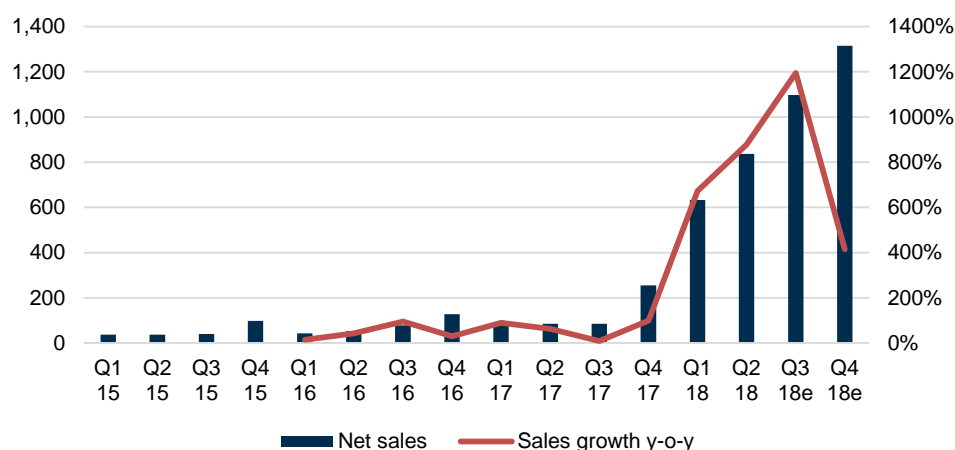


Source: Handelsbanken Capital Markets

**Figure 12: THQ Nordic sales progression including our estimates**

Koch Media  
transformed the  
revenue picture

Q4 is an important  
quarter



Source: Handelsbanken Capital Markets, Company data

### Gross margin

The most important factor for the gross margin is how large a part of sales is generated by fully-owned games, as pure publishing deals for other developers carry a lower margin. Therefore, the gross margin can fluctuate greatly between quarters, depending on the type of releases during the quarter. Furthermore, digital sales come with higher gross margins than physical sales. However, physical sales can also carry very high gross margins when games are internally developed and sold at “full price”, i.e. USD or EUR 60. In the Q4 2017 report, physical sales were as high as 60%, but the gross margin was still strong at 73%, due to the release of new games.

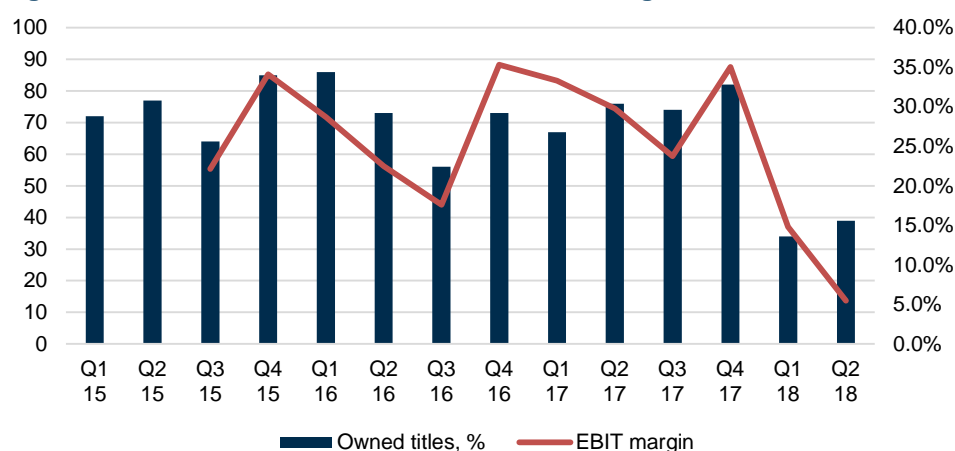
The acquisition of Koch Media naturally burdens the gross margin, as Koch Media is Europe’s biggest physical publisher of games and this has increased the difficulty in forecasting the gross margin. However, we note that THQ is increasingly ramping up its own efforts within game development, and therefore it is reasonable to expect the gross margin to rise over time, in our view, as a higher share of sales is generated from its own developed games. The share of physical sales toward the console segment is likely to remain somewhat sticky over time, we believe, while PC is increasingly a digital arena.

**Figure 13: Owned titles as % of sales vs. EBIT margin**

EBIT margin  
weighed down by  
Koch Media

Publishing deals  
carry lower margins

Q3 and Q4 are also  
likely to be heavily  
tilted toward  
publishing, given the  
current pipeline

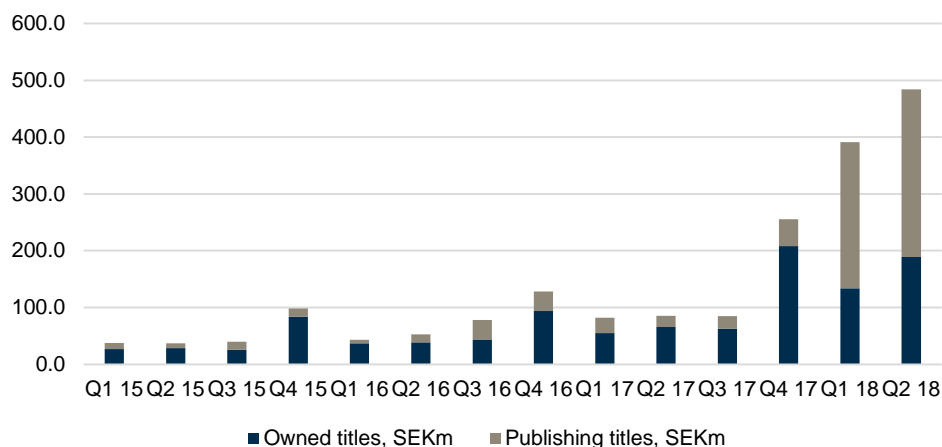


Source: Handelsbanken Capital Markets, Company data



The Koch Media acquisition in Q1 2018 has changed the mix

**Figure 14: Revenue split, owned vs. published games**



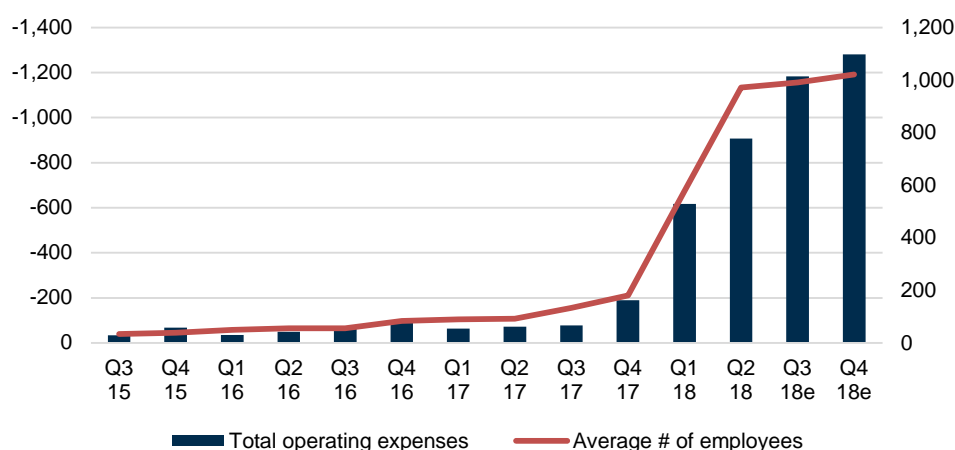
Source: Handelsbanken Capital Markets, Company data

### Operating expenses

A large chunk of THQ Nordic's opex is related to game development. The company's ability to make attractive returns on new launches therefore suggests that development costs should not be scary; however, the jury is still out on THQ Nordic's ability to do so on new larger titles. We expect opex to grow, mainly because of a growing development pipeline and increased marketing spending.

The Koch Media acquisition transformed the company

**Figure 15: Operating expenses and average number of employees**



Source: Handelsbanken Capital Markets, Company data

See the appendix for a table of the P&L.

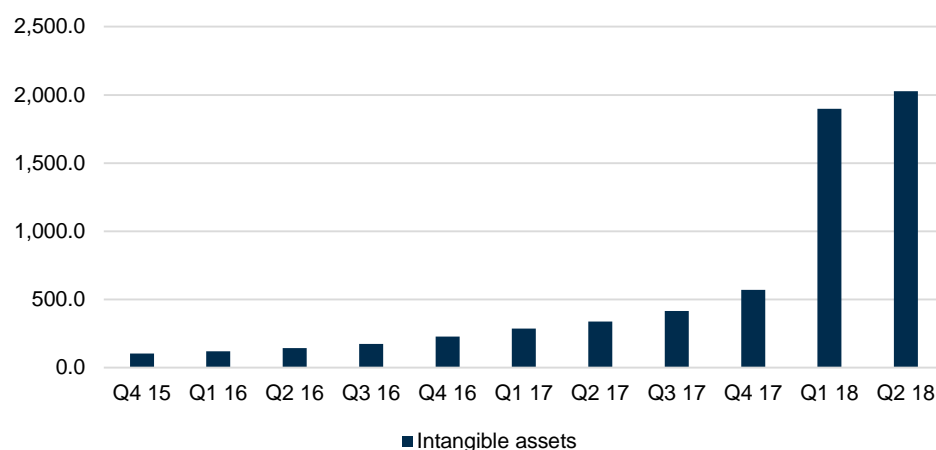
### The investments are stored in the balance sheet under intangible assets

If we look at THQ Nordic's intangible assets on the balance sheet to capture the value of the finished games, IP rights and ongoing projects, we note that this post exceeded SEK 2bn in Q2 2018. It rose sharply after the Koch Media acquisition, as Koch has four "AAA-games" (big budget games) under development. After a game is launched, a third of the development value is written off in a quarter, which means that this post might fall after a big release, but should generally rise over time as the company grows and reinvests its cash flow into new projects. However, about SEK 400m in intangible assets consists of goodwill.

Game development is capitalised and stored as a value on the balance sheet until the game is released

It is then written off according to a schedule, or impaired if sales disappoint

**Figure 16: Intangible assets on the balance sheet**

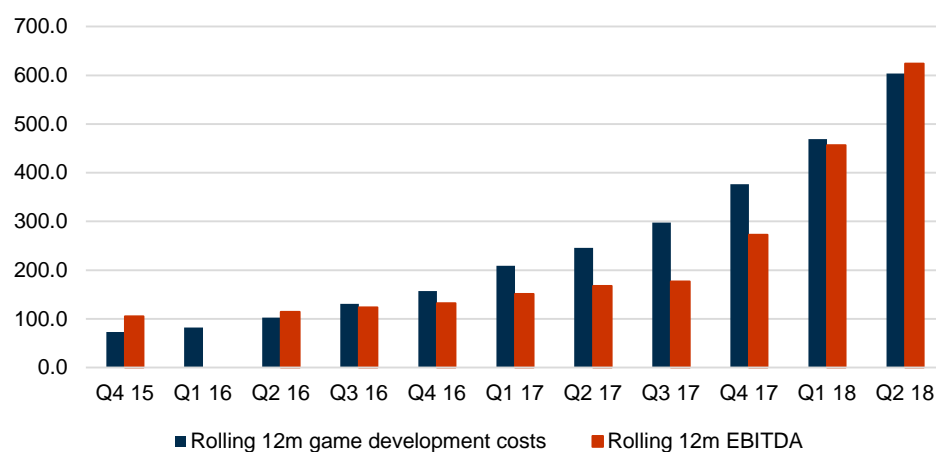


Source: Handelsbanken Capital Markets, Company data. Includes finished games, IP right, ongoing projects and goodwill

Game development investments have been growing steadily

This is what should fuel the organic profit growth ahead

**Figure 17: Game development costs vs. EBITDA**



Source: Handelsbanken Capital Markets, company data

Besides our estimated net cash position of EUR 1.9bn at year-end, THQ Nordic also has credit facilities of EUR 85m available. See the appendix for a full table of the balance sheet.

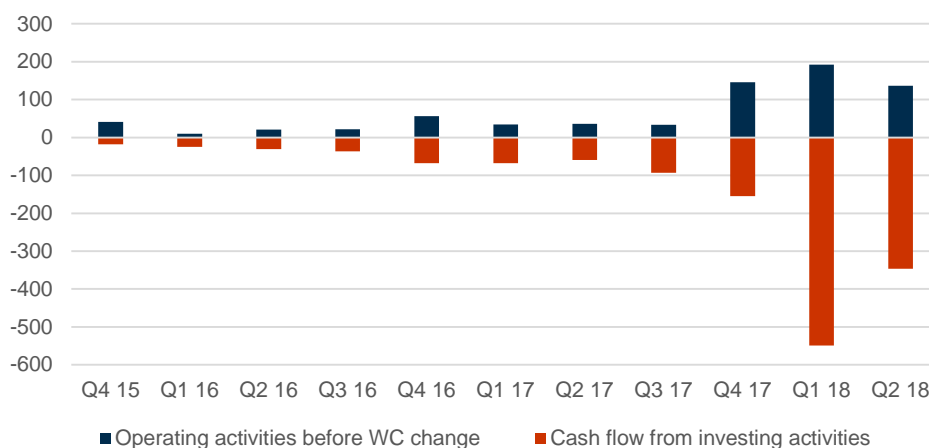
### Cash flow

Game development companies differ in that investments that are needed to drive future sales (new game development) end up in investment cash flow. Therefore, only looking at operating cash flow is not very relevant, as the company has to reinvest a certain amount for the operating cash flow to be maintained. That said, keep in mind that a gaming company does not need to tie up more capital to sell another copy of a game, resulting in an attractive capital-light sales model that drastically lowers the cost of growth.

**Figure 18: Operating cash flow vs. investing cash flow**

Operating cash flow has been redeployed into game development at a high ROI

Cash flow in Q1 burdened by Koch Media acquisition



Source: Handelsbanken Capital Markets, Company data

THQ Nordic reinvests all its cash flow in game development and acquisitions and even raises money through share issues, as it wants to keep a prudent debt profile. It therefore pays no dividend. This makes sense, in our view, given where the company is today, and we believe it will take many years before acquisition and investment opportunities dry up to the extent that a dividend would make sense.

# Valuation

Valuing game companies is no easy feat; cash flow visibility even a few years into the future is much lower than for most companies, but at the same time, we note that the market makes no adjustment for this, but rather prices the stock as if visibility were good. On the other hand, you have a superior return profile, where the cost of growth is very small, if a success unfolds, meaning that the gross margin is very high. Taking all this together, we choose not to make a judgement as to which specific valuation level is correct. Instead, as all companies share these profiles to a certain degree, we place emphasis on the relative valuation. THQ Nordic scores the highest from an “option value” point of view with a wide portfolio of IP that could develop into popular games, along with its proven track record with acquisitions.

On average, the Nordic peer group trades at lower multiples than international peers. While Starbreeze is highly dependent on one upcoming game title, which depresses the Nordic average, it is fair to say that investors are generally cautious about mobile game companies. Paradox, which we regard as the best Nordic peer given its PC and console focus, is currently valued at a premium to THQ.

**Table 1: Nordic peer group**

	Mcap EUR	EV/EBITDA		EV/EBIT		EV/Sales		P/E		EPS growth %		Sales gr. %		Rev. Ratio %		EBIT margin	
		2019e	2020e	2019e	2020e	2019e	2020e	2019e	2020e	2019e	2020e	2019e	2020e	EPS	Sales	2019e	2020e
G5 Entertainment	271	7.6	5.2	10.2	7.4	1.2	0.9	13.2	10.3	37.3	28.2	28.7	22.5	0	-75	12.1	12.7
<b>THQ Nordic</b>	<b>1,575</b>	<b>8.9</b>	<b>6.4</b>	<b>17.7</b>	<b>11.9</b>	<b>2.8</b>	<b>2.2</b>	<b>27.4</b>	<b>19.2</b>	<b>87.3</b>	<b>42.8</b>	<b>30.8</b>	<b>20.0</b>	<b>-50</b>	<b>50</b>	<b>15.8</b>	<b>18.5</b>
Stillfront	403	6.2	5.1	8.1	6.4	2.4	1.9	12.7	11.5	86.0	9.9	26.5	11.4	0	-33	29.6	30.7
Paradox	1,455	16.9	13.8	23.4	19.4	10.5	8.7	31.3	26.4	39.8	18.3	26.8	18.5	-100	-100	45.0	44.9
Starbreeze	268	4.4	1.6	10.7	3.0	2.0	0.8	17.5	6.9	45.6	152.5	36.0	71.2	0	-25	18.6	26.6
Rovio	388	5.3	3.4	6.2	3.8	0.9	0.7	12.6	8.5	55.0	47.6	3.7	8.3	33	-17	14.1	18.7
<b>Average</b>	<b>726</b>	<b>8.2</b>	<b>5.9</b>	<b>12.7</b>	<b>8.6</b>	<b>3.3</b>	<b>2.5</b>	<b>19.1</b>	<b>13.8</b>	<b>58.5</b>	<b>49.9</b>	<b>25.4</b>	<b>25.3</b>	<b>-19.4</b>	<b>-33.3</b>	<b>22.5</b>	<b>25.3</b>
<b>Median</b>	<b>395</b>	<b>6.9</b>	<b>5.1</b>	<b>10.4</b>	<b>6.9</b>	<b>2.2</b>	<b>1.4</b>	<b>15.3</b>	<b>10.9</b>	<b>50.3</b>	<b>35.5</b>	<b>27.7</b>	<b>19.3</b>	<b>0.0</b>	<b>-29.2</b>	<b>17.2</b>	<b>22.7</b>
<b>THQ Nordic vs. Median</b>		<b>29.7%</b>	<b>24.5%</b>	<b>70.1%</b>	<b>73.6%</b>	<b>27.9%</b>	<b>53.0%</b>	<b>78.6%</b>	<b>75.9%</b>	<b>37pp</b>	<b>7pp</b>	<b>3pp</b>	<b>1pp</b>	<b>-50pp</b>	<b>79pp</b>	<b>-1pp</b>	<b>-4pp</b>

Source: Handelsbanken Capital Markets, FactSet. All numbers apart from THQ are consensus numbers.

The international peer group includes the industry giants. Such companies are expected to post healthy growth ahead, so investors are willing to pay a premium to the broader market to gain exposure to the gaming market.

**Table 2: International peer group**

	Mcap EUR	EV/EBITDA		EV/EBIT		EV/Sales		P/E		EPS growth %		Sales gr. %		Rev. Ratio %		EBIT margin	
		2019e	2020e	2019e	2020e	2019e	2020e	2019e	2020e	2019e	2020e	2019e	2020e	EPS	Sales	2019e	2020e
Activision Blizzard	48,791	16.3	13.3	17.7	15.1	6.4	5.6	24.7	22.0	14.9	12.1	7.4	7.8	44	-11	36.2	37.4
CD Projekt	4,002	16.2	11.4	19.5	14.1	10.0	9.6	27.3	20.0	312.0	36.5	244.6	-0.2	-67	-33	51.3	68.0
Electronic Arts	29,738	13.4	11.5	14.0	12.1	5.0	4.4	20.9	18.9	16.6	10.9	8.9	7.4	-85	-77	35.5	36.5
Nintendo	42,455	12.1	10.3	11.4	10.4	2.9	3.0	17.1	16.1	34.4	6.3	11.1	-5.3	-13	-44	25.7	29.1
Take-Two	12,670	16.0	10.8	16.8	11.2	4.2	3.1	25.8	19.6	11.1	31.5	0.7	28.4	66	36	25.1	27.2
Tencent	327,840	16.7	11.9	19.8	15.2	5.9	4.5	26.1	21.1	21.9	23.5	32.6	27.1	-66	-78	29.8	29.5
Ubisoft	10,084	8.6	7.3	17.5	15.2	4.2	3.8	27.5	22.8	21.1	20.5	12.5	8.6	-41	25	24.0	24.7
<b>Average</b>	<b>67,940</b>	<b>14.2</b>	<b>10.9</b>	<b>16.7</b>	<b>13.3</b>	<b>5.5</b>	<b>4.9</b>	<b>24.2</b>	<b>20.1</b>	<b>61.7</b>	<b>20.2</b>	<b>45.4</b>	<b>10.6</b>	<b>-23.1</b>	<b>-26.0</b>	<b>32.5</b>	<b>36.1</b>
<b>Median</b>	<b>29,738</b>	<b>16.0</b>	<b>11.4</b>	<b>17.5</b>	<b>14.1</b>	<b>5.0</b>	<b>4.4</b>	<b>25.8</b>	<b>20.0</b>	<b>21.1</b>	<b>20.5</b>	<b>11.1</b>	<b>7.8</b>	<b>-41.4</b>	<b>-33.3</b>	<b>29.8</b>	<b>29.5</b>
<b>THQ Nordic vs. Median</b>		<b>-44.4%</b>	<b>-44.1%</b>	<b>1.2%</b>	<b>-15.3%</b>	<b>-43.7%</b>	<b>-50.1%</b>	<b>6.1%</b>	<b>-4.3%</b>	<b>66pp</b>	<b>22pp</b>	<b>20pp</b>	<b>12pp</b>	<b>-9pp</b>	<b>83pp</b>	<b>-14pp</b>	<b>-11pp</b>

Source: Handelsbanken Capital Markets, FactSet

We acknowledge that estimate risk is high. Relative to consensus, we think that EBITDA is the most relevant metric to compare, as we differ on the amortisation rate used. Our assumption of a higher rate of amortisation leaves our estimates for 2018-19 EBIT and EPS lower than consensus, but higher for EBITDA. The big difference is for 2020, when consensus assumes a slowdown given the lack of visibility. We consider such a view to be too cautious and out of kilter with THQ Nordic's historical performance; we therefore see upside potential in 2020 estimates of ~20%.

We are generally  
ahead of consensus'  
numbers for 2020...

...which look too  
cautious, in our view

**Table 3: HCM vs. consensus**

	Sales			EBITDA			EBIT			EPS		
	2018	2019	2020	2018	2019	2020	2018	2019	2020	2018	2019	2020
HCM	3,884	5,079	6,094	1,023	1,598	2,102	425	802	1,126	3.7	6.9	9.9
Consensus	3,664	4,651	5,011	1,010	1,488	1,740	514	871	952	5.1	8.3	8.6
Diff %	6%	9%	22%	1%	7%	21%	-17%	-8%	18%	-27%	-16%	15%

Source: Handelsbanken Capital Markets, Factset

## Key management and board members

THQ Nordic has a heavily-incentivised management team, with the CEO and CFO combined owning almost half of the company, and with other key individuals owning a solid stake as well. We view this as positive; being able to retain key employees is a recipe for success in this industry, in our view. There are both A and B shares; the A shares are not listed.



**Lars Wingefors**

- Founder of THQ Nordic. Board member and CEO
- Board member of Game Outlet Europe AB, Game Stores Group Sweden AB, Nordic Games Group AB and The Crate Inventors AB; also, board member and CEO of LW Comics AB and Lars Wingefors AB
- Started his first company at the age of 13; has broad and lengthy experience in entrepreneurship and business management
- Owns 55.9% of the votes and 40.9% of the capital



**Erik Stenberg**

- Co-founder, CFO and board member
- Board member of Xagonus Aktiebolag, Games Stores Group Sweden AB, Game Outlet Europe AB, Nordic Games Group AB, Zagonus AB and Stonemountain Invest AB
- Degree of Master of Science in Business and Economics from Karlstad University and extensive experience in business management
- Owns 12.1% of the votes and 8.9% of the capital



**Reinhard Pollice**

- Director of business and production development
- Bachelor's degree in project management and IT from the University of Applied Sciences BFI in Vienna.
- Joined following the JoWood acquisition in 2011
- Owns 1.07% of the votes and 0.87% of the capital



**Klemens Kreuzer**

- Managing director of THQ Nordic GmbH
- Master's degree in business administration from the Vienna University of Economics and Business
- Experience of business management
- Owns 1.73% of the votes and 1.27% of the capital





**Klemens Kundratitz**

- Managing director of Koch Media
- Founded Koch Media in 1994 with Franz Koch
- Doctoral degree in law
- Responsible for strategy, publishing, subsidiaries and supplier management



**Reinhard Gratl**

- Managing director of Koch Media
- Employed since 1997
- Doctoral degree in business economics from the University of St Gallen
- Responsible for finance, accounting, controlling, stock and cash management



**Kicki Wallje-Lund**

- Chairman of the board
- Board member and CEO of Well-Net AB, board member of C-Rad AB, Betsson AB and Linkura AB
- Experience in business development from a variety of international companies, especially in the IT sector; held leading positions in companies including NCR, Digital Equipment, AT & T, Philips, ICL and Unisys; currently CEO of Wellnet AB
- Owns 15,200 shares in THQ Nordic

**Jacob Jonmyren**

- Board member
- Master's degree in Accounting and Financial Management from Stockholm School of Economics and studied Finance at University of Wisconsin – Madison and Media & Communication Studies (Master level) at Stockholm University
- Partner, Portfolio Manager and Head of Research at RAM ONE AB and member of the board at Jacob Jonmyren Kapital AB and World Market Coverage i Stockholm

**Ulf Hjalmarsson**

- Board member
- Master's degree in Accounting and Financial Management from Lund's University
- Chairman of the board in Hjalmarsson & Partners Corporate Finance, director of the board in Lannebo Fonder AB, Connecting Capital Holding AB and Stiftelsen Kungafonden

## Company timeline

- 2011**
  - Nordic Games GmbH founded as a Europe-wide video game publisher.
  - Company acquired JoWood Entertainment and subsidiary DreamCatcher Interactive. Included in the deal were more than 50 items of intellectual property and licenses.
- 2013**
  - Nordic Games acquired all properties of American video game publisher THQ for USD 4.9m. Included in the deal were over 150 individual games.
  - Nordic Games acquired all games from the Desperados franchise.
- 2014**
  - Nordic Games acquired the THQ trademark, allowing the company to use the THQ brand as an imprint on future games.
  - The company acquired games from bankrupt German publisher DTP Entertainment.
- 2015**
  - Nordic Games and Piranha Bytes announced science fiction action role-playing game Elex.
  - Nordic Games acquired a number of franchises from bankrupt German publisher bitComposer Entertainment.
- 2016**
  - Company rebrands itself as THQ Nordic.
  - The company acquired all IP from both Digital Reality and NovaLogic.
  - The company acquired Sphinx and the Cursed Mummy from Mobile Gaming Studios, and Legends of War and War Leaders: Clash of Nations from Enigma Software Productions.
- 2017**
  - THQ Nordic acquired the Rad Rogers IP from Slippgate Studios. Through the acquisition, THQ Nordic will complete development of the game and publish it for PlayStation 4 and Xbox One.
  - THQ Nordic acquired Black Forest Games and Pieces Interactive alongside the studio's IP. They are best known for Giana Sisters and Magicka 2, respectively.
  - The company acquired Experiment 101, the developer of Biomutant.
- 2018**
  - Acquired Koch Media in Q1.
  - Acquired Timesplitters' IP.
  - Acquired the IP for Kingdoms of Amalur.

## What has changed

SEKm	HCM Q3 18e	chg (%)	HCM 2018e	chg (%)	HCM 2019e	chg (%)
Sales	1,097	n.m	3,884	n.m	5,079	n.m
EBITDA adj	204.5	n.m	1,023	n.m	1,598	n.m
margin (%)	18.6	n.m	26.3	n.m	31.5	n.m
EBIT adj	66.6	n.m	425.5	n.m	801.5	n.m
margin (%)	6.1	n.m	11.0	n.m	15.8	n.m
EBT	64.6	n.m	408.4	n.m	793.5	n.m
Net income	48.5	n.m	310.8	n.m	611.0	n.m
EPS (SEK)	0.55	n.m	3.70	n.m	6.9	n.m
EPS adj (SEK)	0.55	n.m	3.70	n.m	6.9	n.m

Source: Handelsbanken Capital Markets

## Revenue, 12-month rolling



Source: Handelsbanken Capital Markets

## Ownership structure

2018-09-07	Votes (%)	Capital (%)
Wingefors Lars Eric Olof	55.9	40.9
Stenberg Bo Erik	12.1	8.8
Swedbank Robur Fonder Ab	5.0	9.5
Broden Mikael	4.2	3.0
Lundborg Pelle	2.1	1.1
Total number of shares (m)		88.15
Free float (%)		44.1

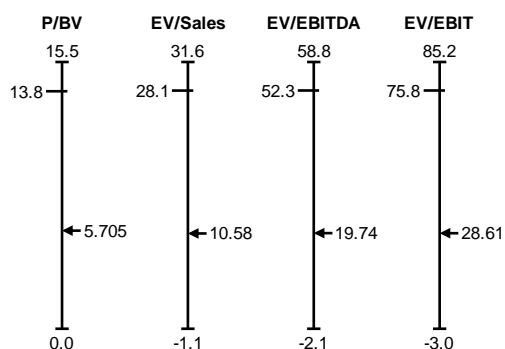
Source: Handelsbanken Capital Markets

## HCM vs. consensus

SEKm	Cons Q3 18e	diff (%)	Cons 2018e	diff (%)	Cons 2019e	diff (%)
Sales	993.2	10	3,955	-2	4,670	9
EBITDA adj	200.0	2	1,010	1	1,532	4
margin (%)	20.1	-1	25.5	1	32.8	-1
EBIT adj	78.0	-15	497.7	-15	827.0	-3
margin (%)	7.9	-2	12.6	-2	17.7	-2
EBT	69.0	-6	501.0	-18	778.5	2
Net income	54.0	-10	377.7	-18	631.3	-3
EPS (SEK)	0.53	4	4.50	-18	7.5	-7
EPS adj (SEK)	0.53	4	4.50	-18	8.2	-15

Source: Handelsbanken Capital Markets and FactSet

## Highs and lows, 10 years



Source: Handelsbanken Capital Markets and FactSet

## Investment case summary

### A business model that generates capital-light growth

THQ Nordic is a game developer and publisher that operates under the THQ Nordic and Deep Silver brands. Its strategy is to buy the IP of successful game series and release new versions to its fan base.

### In a sweet spot for acquisitions in a growing sector

The company has grown aggressively through acquiring companies (game developers and publishers) and intellectual property. The group's balance sheet looks to be in good shape to fuel future growth.

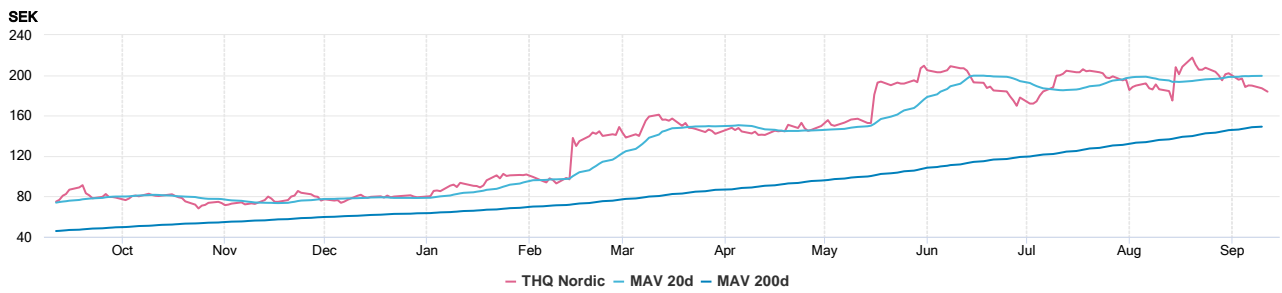
### Pipeline full of opportunity

The PC and console markets are expected to grow at mid-single digit rates in the coming years. We expect THQ Nordic to easily outpace market growth given its pipeline and broad IP portfolio.

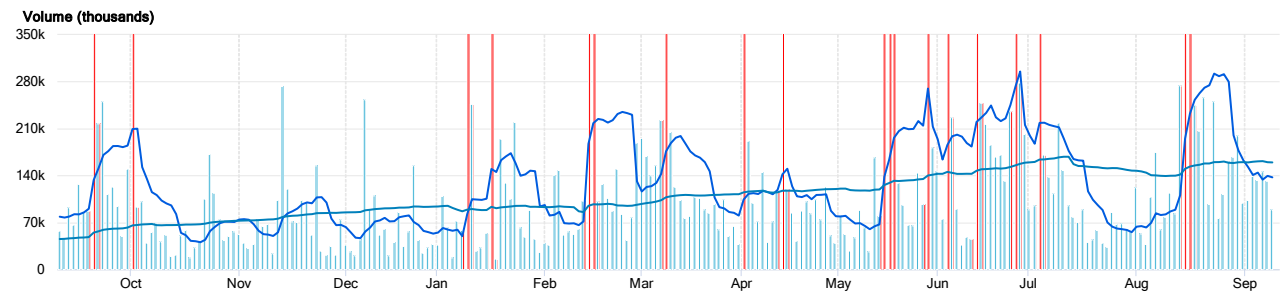
Source: Handelsbanken Capital Markets

## Technical indicators, six months

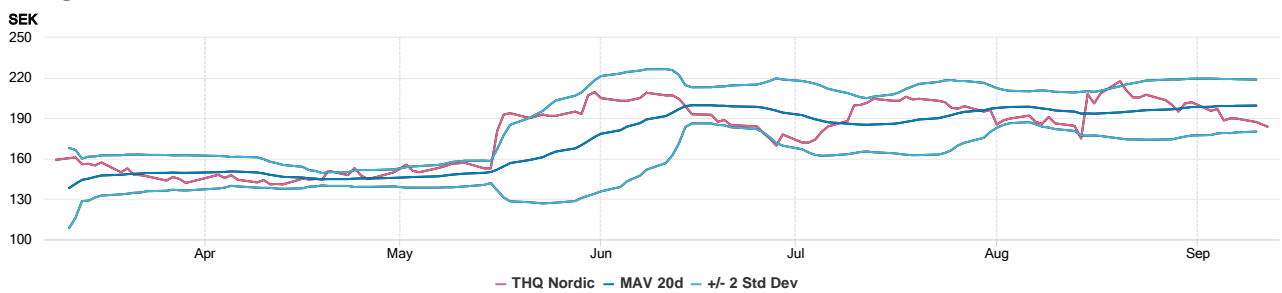
### Share price - 20d/200d MAV



### Volume - 1 year



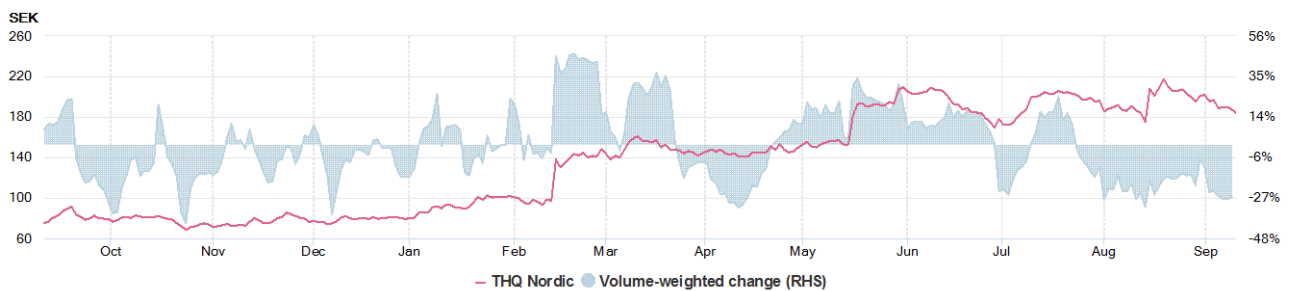
### Bollinger band - 6m



### RSI - 1 year



### Volume-weighted change



Source: FactSet

Note: RSI compares the magnitude of recent share price gains with the magnitude of recent share price losses. Rule-of-thumb: RSI>70 => overbought. RSI<30 oversold. VWC is the volume weighted relation between [close-open] and [high-low] and indicates the momentum of the price change.

## Momentum

### Share price and recommendation



### Target and share price



Source: Handelsbanken Capital Markets and FactSet

### Opportunities

- The gaming market grows rapidly and is developing
- Lots of opportunity to continue to consolidate the market
- If a game release is a blockbuster, earnings could be revised up heavily

Source: Handelsbanken Capital Markets

### Risks

- Unsuccessful game launches is an overhanging risk for this industry
- Low visibility into cash-flow a few years out
- Low free float & volatile share

Source: Handelsbanken Capital Markets

## Valuation data

SEK	2013	2014	2015	2016	2017	2018e	2019e	2020e
Share price year-end/current	-	-	-	33.2	79.3	184	184	184
Share price high	-	-	-	33.5	94.8	220	-	-
Share price low	-	-	-	25.4	29.2	78.8	-	-
Market cap (m)	n.m	n.m	n.m	2,391	6,279	16,203	16,203	16,203
Net debt (m)	-	-	-14.2	-138.9	-572.3	-1,923	-2,516	-3,296
EV (m)	n.m	n.m	n.m	2,253	5,707	14,280	13,687	12,907
P/E reported (x)	n.m	n.m	n.m	28.2	42.1	49.7	26.5	18.6
P/E adj (x)	n.m	n.m	n.m	28.2	42.1	49.7	26.5	18.6
ROE adj (%)	n.m	n.m	n.m	33.5	19.6	15.7	19.1	22.1
Pre-tax ROIC (%)	n.m	n.m	n.m	95.2	76.5	137	161	200
EV/sales (x)	-	-	-	7.5	11.2	3.7	2.7	2.1
EV/EBITDA (x)	n.m	-	-	17.0	20.9	14.0	8.6	6.1
EV/EBITA (x)	n.m	-	-	17.1	21.1	14.2	8.7	6.2
EV/EBIT (x)	n.m	-	-	23.7	30.3	33.6	17.1	11.5
EBIT adj margin (%)	n.m	38.3	31.3	31.5	37.1	11.0	15.8	18.5
EBITDA adj margin (%)	n.m	53.5	49.4	43.8	53.7	26.3	31.5	34.5
FCF adj yield (%)	n.m	n.m	n.m	-2.4	-3.1	5.9	3.7	4.8

Source: Handelsbanken Capital Markets

## Peer group valuation

	CCY	Price (Sh. curr.)	Mcap (EURm)	Perf. (%)		
				-1m	-3m	-12m
<b>Electronic Arts*</b>	USD	113	29,738	-13.8	-17.9	-4.3
G5 Entertainment	SEK	316	271	-13.4	-45.4	-17.2
Nintendo*	JPY	38,640	42,455	5.9	-7.1	7.3
<b>Paradox Interactive</b>	SEK	144	0	-25.6	-	-
Rovio Entertainment	EUR	4.9	388	-10.0	-13.5	-
Starbreeze	SEK	8.7	224	-3.3	-47.8	-23.0
Stillfront	SEK	181	0	-	-	-
<b>THQ Nordic</b>	SEK	184	1,546	-1.3	-11.2	145
Ubisoft Entertainment*	EUR	88.5	10,084	-5.7	-7.4	53.9
<b>Average</b>				<b>-8.4</b>	<b>-21.5</b>	<b>27.0</b>
<b>Median</b>				<b>-7.9</b>	<b>-13.5</b>	<b>1.5</b>
<b>Average excl. Electronic Arts</b>				<b>-7.6</b>	<b>-22.1</b>	<b>33.2</b>
<b>Median excl. Electronic Arts</b>				<b>-5.7</b>	<b>-12.4</b>	<b>7.3</b>

Source: Handelsbanken Capital Markets and FactSet

## DCF model assumptions

SEKm	2017	2018e	2019e	2020e	2021e	2022e	2027e	2032e	2037e
Sales	507.5	3,884	5,079	6,094	7,008	8,060	12,401	17,393	22,198
EBITDA - Reported	272.6	1,023	1,598	2,102	2,523	2,982	4,548	6,137	7,241
EBITA2 - Reported (=EBITA bef gw amort) (use: IS)	188.2	425.5	801.5	1,126	1,402	1,693	2,480	3,131	3,596
Sales CAGR (%)	68.1	665.3	30.8	20.0	15.0	15.0	9.0	7.0	5.0
EBITDA growth (%)	106.0	275.2	56.3	31.5	20.1	18.2	8.8	6.2	3.4
EBITA growth (%)	98.1	126.1	88.4	40.5	24.4	20.7	7.9	4.8	2.8
EBITDA margin (%)	53.7	26.3	31.5	34.5	36.0	37.0	36.7	35.3	32.6
EBITA margin (%)	37.1	11.0	15.8	18.5	20.0	21.0	20.0	18.0	16.2
Capex/sales (%)	74.2	21.1	21.1	21.1	21.1	21.1	20.0	19.0	18.1
Capex/depreciation (x)	4.5	1.4	1.3	1.3	1.3	1.3	1.2	1.1	1.1
Net working cap/sales (%)	-7.4	-21.3	-21.3	-21.3	-21.3	-21.3	-21.3	-21.3	-21.3

WACC assumptions (%)	Calculation of DCF (SEKm)	DCF checkpoints (%)
Risk-free interest rate	2.0 NPV FCFF	20,912 5y hist sales growth
Equity market risk premium	4.5 ND inc off-BS & Hybrids	-572 5y exp sales growth
Extra risk premium	2.0 Market value Preferred stock	0.0 Sustainable growth
Equity beta (x)	1.1 Market value Associates	0.0 Sust EBITDA margin
Implicit asset beta (x)	1.1 Market value Minorities	0.0 Sust EBITA margin
Cost of equity	9.0 Surplus values	0.0 Sust after-tax ROIC
Pre-tax cost of debt	5.0 Other adjustments	1,512 Terminal value/DCF
Equity weight	100 DCF value	22,996 Implicit equity weight
<b>WACC</b>	<b>9.0 DCF value/share (SEK)</b>	<b>261 Share price potential to DCF value</b>

Source: Handelsbanken Capital Markets



## P&amp;L accounts – quarterly data

SEKm	Q2 17	Q3 17	Q4 17	Q1 18	Q2 18	Q3 18e	Q4 18e	Q1 19e
<b>P&amp;L</b>								
Sales	85.6	84.7	255.3	632.9	837.4	1,097	1,316	1,187
Total op expenses	-45.8	-50.1	-99.0	-403.5	-627.0	-892.9	-937.4	-866.1
EBITDA	39.8	34.6	156.4	229.4	210.4	204.5	378.6	320.9
Depreciation & impairment	0.0	0.0	-2.1	-3.5	-3.5	-3.5	-3.5	0.0
Amortisation intangibles	-9.4	-10.6	-52.3	-118.7	-154.4	-134.4	-176.0	-189.9
<b>EBIT</b>	<b>30.4</b>	<b>24.0</b>	<b>101.9</b>	<b>107.3</b>	<b>52.5</b>	<b>66.6</b>	<b>199.1</b>	<b>131.0</b>
Net financials	-0.4	-0.6	-4.9	-9.2	-3.9	-2.0	-2.0	-2.0
<b>EBT</b>	<b>30.0</b>	<b>23.5</b>	<b>97.0</b>	<b>98.0</b>	<b>48.6</b>	<b>64.6</b>	<b>197.1</b>	<b>129.0</b>
Reported tax	-6.8	-4.4	-23.7	-16.9	-15.2	-16.2	-49.3	-29.7
tax rate (%)	22.6	18.8	24.4	17.3	31.2	25.0	25.0	23.0
<b>Net income</b>	<b>23.3</b>	<b>19.0</b>	<b>73.3</b>	<b>81.1</b>	<b>33.4</b>	<b>48.5</b>	<b>147.8</b>	<b>99.3</b>
<b>Growth (%)</b>								
Sales	62.4	8.7	99.2	672.8	878.3	>900	415.5	87.5
Total expenses	55.2	-4.6	46.8	909.0	1,268	1,682	847.3	114.6
EBITDA	71.7	36.2	157.2	447.4	429.3	491.1	142.1	39.9
EBIT	114.1	50.1	101.3	236.7	72.8	177.1	95.4	22.1
EBT	118.3	50.5	95.7	211.3	61.9	175.5	103.1	31.6
Net income	120.6	49.8	93.0	244.5	43.8	154.4	101.6	22.5
<b>of sales (%)</b>								
Gross margin	71.7	64.9	72.9	49.5	44.4	34.0	45.7	44.6
EBITDA margin	46.4	40.9	61.2	36.2	25.1	18.6	28.8	27.0
EBIT margin	35.5	28.4	39.9	16.9	6.3	6.1	15.1	11.0
EBT margin	35.1	27.7	38.0	15.5	5.8	5.9	15.0	10.9
Net margin	27.2	22.5	28.7	12.8	4.0	4.4	11.2	8.4
<b>Adjusted values</b>								
EBITDA	39.8	34.6	156.4	229.4	210.4	204.5	378.6	320.9
margin (%)	46.4	40.9	61.2	36.2	25.1	18.6	28.8	27.0
EBIT	30.4	24.0	101.9	107.3	52.5	66.6	199.1	131.0
margin (%)	35.5	28.4	39.9	16.9	6.3	6.1	15.1	11.0
EBT	30.0	23.5	97.0	98.0	48.6	64.6	197.1	129.0
Net income	23.3	19.0	73.3	81.1	33.4	48.5	147.8	99.3

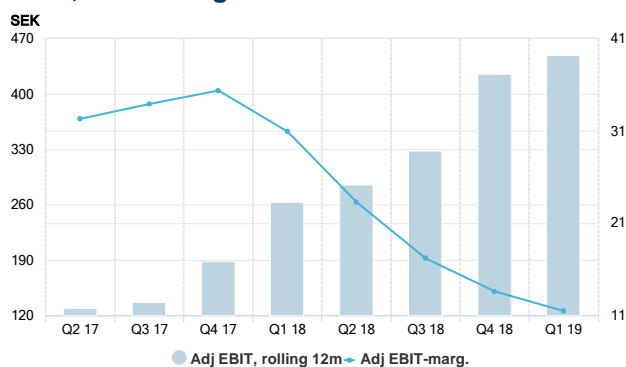
Source: Handelsbanken Capital Markets

## Revenues, 12m rolling



Source: Handelsbanken Capital Markets

## EBIT, 12m rolling



Source: Handelsbanken Capital Markets

**P&L accounts – annual data**

SEKm	2013	2014	2015	2016	2017	2018e	2019e	2020e
<b>Income statement</b>								
Sales	102.0	178.0	212.9	301.9	507.5	3,884	5,079	6,094
Total op expenses	-102.0	-82.8	-107.8	-169.5	-234.9	-2,861	-3,480	-3,993
EBITDA	-	95.2	105.1	132.4	272.6	1,023	1,598	2,102
Depreciation & impairment	0.0	0.0	0.0	-0.9	-2.1	-14.0	-18.3	-22.0
Amortisation intangibles	0.0	-27.1	-38.5	-36.5	-82.3	-583.5	-778.6	-953.1
<b>EBIT</b>	<b>-</b>	<b>68</b>	<b>67</b>	<b>95</b>	<b>188</b>	<b>425</b>	<b>802</b>	<b>1,126</b>
Net interest expenses	0.0	0.0	-0.6	-2.1	-6.2	-17.1	-8.0	-8.0
Net financials	-	0.0	-0.6	-2.1	-6.2	-17.1	-8.0	-8.0
Associated income	-	-	-0.5	-	-	-	-	-
<b>EBT</b>	<b>-</b>	<b>68.1</b>	<b>65.5</b>	<b>92.9</b>	<b>182</b>	<b>408</b>	<b>794</b>	<b>1,118</b>
Paid tax	-	-	-11.2	-23.3	-42.8	-97.6	-182.5	-246.1
Deferred tax	-	-	3.1	-2.4	-	-	-	-
Reported tax	-	-	-14.2	-20.9	-42.8	-97.6	-182.5	-246.1
tax rate (%)	0	0	21.7	22.6	23.5	23.9	23.0	22.0
<b>Net income</b>	<b>-</b>	<b>-</b>	<b>51.2</b>	<b>71.9</b>	<b>139.2</b>	<b>310.8</b>	<b>611.0</b>	<b>872.4</b>
<b>Growth (%)</b>								
Sales	750.0	74.5	19.6	41.8	68.1	665.3	30.8	20.0
Total expenses	750.0	-18.8	30.2	57.3	38.6	1,118	21.6	14.7
EBITDA	n.m	n.m	10.4	26.0	106.0	275.2	56.3	31.5
EBIT	n.m	n.m	-2.3	42.7	98.1	126.1	88.4	40.5
EBT	n.m	n.m	-3.9	41.9	95.9	124.4	94.3	40.9
Net income	n.m	n.m	n.m	40.4	93.4	123.3	96.6	42.8
<b>of sales (%)</b>								
Gross margin	100	100	67.1	60.6	70.9	42.7	47.6	49.0
EBITDA margin	n.m	53.5	49.4	43.8	53.7	26.3	31.5	34.5
EBIT margin	n.m	38.3	31.3	31.5	37.1	11.0	15.8	18.5
EBT margin	n.m	38.3	30.8	30.8	35.9	10.5	15.6	18.4
Net margin	n.m	38.3	24.1	23.8	27.4	8.0	12.0	14.3
<b>Profitability (%)</b>								
ROE reported	n.m	n.m	n.m	33.5	19.6	15.7	19.1	22.1
ROE adj	n.m	n.m	n.m	33.5	19.6	15.7	19.1	22.1
ROCE	n.m	n.m	n.m	40.5	25.0	20.8	24.6	28.2
Pre-tax ROIC	n.m	n.m	n.m	95.2	76.5	137	161	200
After tax ROIC	n.m	n.m	n.m	71.3	58.5	104	124	156
Sales/employee (SEKm)	n.m	n.m	6	4	4	4	5	5
Sales/capital invested (x)	n.m	n.m	n.m	2.2	1.4	>500	>500	>500
Sales/total assets (x)	n.m	n.m	n.m	0.94	0.57	1.3	0.99	0.96
<b>Adjusted values</b>								
EBITDA	-	95.2	105.1	132.4	272.6	1,023	1,598	2,102
margin (%)	n.m	53.5	49.4	43.8	53.7	26.3	31.5	34.5
EBIT	-	68.1	66.6	95.0	188.2	425.5	801.5	1,126
margin (%)	n.m	38.3	31.3	31.5	37.1	11.0	15.8	18.5
EBT	-	68.1	65.5	92.9	182.0	408.4	793.5	1,118
<b>Net income</b>	<b>0.0</b>	<b>0.0</b>	<b>51.2</b>	<b>71.9</b>	<b>139.2</b>	<b>310.8</b>	<b>611.0</b>	<b>872.4</b>

Source: Handelsbanken Capital Markets

## Forecast balance sheet – annual data

SEKm	2014	2015	2016	2017	2018e	2019e	2020e
Accounts receivable	-	30	22	90	777	1,016	1,219
Inventory	-	13	18	30	-	-	-
Other current assets	-	0.8	25	-	-	-	-
Cash & other interest-bearing	-	26	167	627	1,977	2,570	3,350
<b>Current assets</b>	-	<b>69</b>	<b>232</b>	<b>747</b>	<b>2,754</b>	<b>3,585</b>	<b>4,569</b>
Goodwill	-	-	-	24	407	407	407
R&D	-	51	174	435	1,311	1,579	1,881
Other intangible	-	53	54	112	112	112	112
Tangible assets	-	2	4	8	12	18	24
Other financial assets	-	-	0.2	3	3	3	3
<b>Total assets</b>	-	<b>175</b>	<b>465</b>	<b>1,329</b>	<b>4,599</b>	<b>5,704</b>	<b>6,996</b>
Equity	-	84	345	1,073	2,896	3,507	4,380
Shareholder equity	-	84	345	1,073	2,896	3,507	4,380
Deferred tax liabilities	-	8	11	41	41	41	41
LT interest-bearing debt	-	1	-	-	-	-	-
ST interest-bearing debt	-	10	29	57	57	57	57
Trade payables	-	2	28	55	424	555	666
Other current liabilities	n.m	70	52	102	1,181	1,544	1,853
<b>Current liabilities</b>	-	<b>82</b>	<b>108</b>	<b>215</b>	<b>1,662</b>	<b>2,156</b>	<b>2,576</b>
<b>Total equity &amp; liabilities</b>	-	<b>175</b>	<b>465</b>	<b>1,329</b>	<b>4,599</b>	<b>5,704</b>	<b>6,996</b>
Net interest bearing debt	-	-14	-139	-572	-1,923	-2,516	-3,296

Source: Handelsbanken Capital Markets

## Forecast cash flow

SEKm	2013	2014	2015	2016	2017	2018e	2019e	2020e
<b>EBIT before associates</b>	-	<b>68.1</b>	<b>66.6</b>	<b>95.0</b>	<b>188.2</b>	<b>425.5</b>	<b>801.5</b>	<b>1,126</b>
+ Net financials	-	-0.1	0.2	0.1	-0.2	-17.1	-8.0	-8.0
- Paid tax	-	-	-11.2	-23.3	-42.8	-97.6	-182.5	-246.1
- Change in NWC	-	-	16.3	-8.7	-70.4	864.2	254.8	216.6
+ Depreciation/impairment	-	-	38.8	38.3	124.5	597.5	796.9	975.1
+ Other adjustment	n.m	-68.0	-0.8	-2.2	-20.1	n.m	n.m	n.m
<b>Cash flow from operations (CFFO)</b>	-	-	<b>109.9</b>	<b>99.2</b>	<b>179.1</b>	<b>1,772</b>	<b>1,663</b>	<b>2,064</b>
- Net recurring capex	-	-	-72.9	-156.8	-376.7	-818.2	-1,070	-1,284
<b>FCF bef Acq. &amp; Div. (FCF)</b>	-	-	<b>37.0</b>	<b>-57.6</b>	<b>-197.6</b>	<b>954.3</b>	<b>592.8</b>	<b>780.2</b>
- Acquisitions	-	-	-	-	-	-1,116	-	-
+ Divestments	-	-	3.0	-	-	-	-	-
<b>FCF to equity (FCFE)</b>	-	-	<b>40.0</b>	<b>-57.6</b>	<b>-197.6</b>	<b>-162.0</b>	<b>592.8</b>	<b>780.2</b>
- Paid dividends to shareholders	n.m	n.m	-25.0	-40.0	n.m	n.m	n.m	n.m
+ New share issue	n.m	n.m	n.m	223.2	580.4	1,512	n.m	n.m
+ Other adjustments	-	-	-0.8	-1.0	50.6	-	-	-
<b>NET cash flow/change in NIBD</b>	-	-	<b>14.2</b>	<b>124.7</b>	<b>433.4</b>	<b>1,350</b>	<b>592.8</b>	<b>780.2</b>
Funds from operations (FFO)	n.m	n.m	93.6	107.9	249.5	908.3	1,408	1,847
Cash flow from operations (CFFO)	-	-	109.9	99.2	179.1	1,772	1,663	2,064
FCF bef Acquisitions & Divestments (FCF)	-	-	37.0	-57.6	-197.6	954.3	592.8	780.2
FCF to equity (FCFE)	-	-	40.0	-57.6	-197.6	-162.0	592.8	780.2

Source: Handelsbanken Capital Markets

## Financial ratios – annual data

%	2013	2014	2015	2016	2017	2018e	2019e	2020e
Equity/total assets	n.m	n.m	48.0	74.2	80.8	63.0	61.5	62.6
Net debt/equity	n.m	n.m	-16.9	-40.2	-53.3	-66.4	-71.7	-75.2
Net cash flow/capex	n.m	n.m	19.5	79.5	115	165	55.4	60.8
EBITDA net interest cover (x)	n.m	>900	177	62.5	44.1	59.8	200	263
EBIT net interest cover(x)	n.m	>900	112	44.8	30.4	24.9	100	141
FCFF/total debt	n.m	n.m	268	-150	<-200	>500	>500	>500
Total debt/capital	n.m	n.m	11.9	7.7	5.0	1.9	1.6	1.3
Short-term debt/capital	n.m	n.m	10.5	7.7	5.0	1.9	1.6	1.3
Long-term debt/capital	n.m	n.m	1.5	0	0	0	0	0
Inventory/sales	n.m	n.m	6.0	6.1	5.9	n.m	n.m	n.m
Receivables/sales	n.m	n.m	14.4	15.4	17.8	20.0	20.0	20.0
Accounts payable/sales	n.m	n.m	33.6	26.0	30.7	40.9	40.9	40.9
Working capital/sales	0	0	-13.5	-4.8	-7.4	-21.3	-21.3	-21.3
Current ratio	n.m	n.m	84.0	214	348	166	166	177
Quick ratio	n.m	n.m	68.4	197	334	166	166	177

Source: Handelsbanken Capital Markets

**Per share data**

<b>m</b>	<b>2013</b>	<b>2014</b>	<b>2015</b>	<b>2016</b>	<b>2017</b>	<b>2018e</b>	<b>2019e</b>	<b>2020e</b>
Nr of shares, year-end	-	-	60.0	72.0	79.2	88.2	88.2	88.2
Nr of shares, average	-	-	60.0	61.1	73.9	84.0	88.2	88.2
EPS reported (SEK)	-	-	0.85	1.18	1.88	3.70	6.9	9.9
Y-o-y growth (%)	n.m	n.m	n.m	37.8	59.9	96.6	87.3	42.8
EPS adj (SEK)	n.m	n.m	0.85	1.18	1.88	3.70	6.9	9.9
Y-o-y growth (%)	-	-	-	37.8	59.9	96.6	87.3	42.8
Cash earnings (SEK)	n.m	n.m	1.50	1.79	3.02	10.8	16.0	21.0
DPS - ordinary (SEK)	-	-	-	-	-	-	-	-
Book value (SEK)	n.m	n.m	1.40	4.79	13.5	32.9	39.8	49.7
Y-o-y growth (%)	n.m	n.m	n.m	241.3	182.7	142.6	21.1	24.9
Net debt (SEK)	n.m	n.m	-0.24	-1.93	-7.2	-21.8	-28.5	-37.4
NAV (SEK)	n.m	n.m	-0.34	1.62	6.3	12.1	16.0	22.5

Source: Handelsbanken Capital Markets

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### Ratings: definitions and allocations

HCM rating	R <sub>TP</sub> is expected to be <sup>1</sup>	HCM Universe <sup>2</sup>	IB services <sup>3</sup>
Buy	above 20%	28%	10%
Accumulate	+5% to +20%	46%	17%
Reduce	-15% to +5%	25%	13%
Sell	below -15%	1%	0%

<sup>1</sup> R<sub>TP</sub> is defined as the expected share price appreciation or depreciation including dividends over the next 12 months

<sup>2</sup> Percentage of companies under coverage within each recommendation

<sup>3</sup> Percentage of companies within each recommendation for which investment banking services have been provided in the past 12 months

Source: Handelsbanken Capital Markets, as per 12/9 2018

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**THQ Nordic**

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Sep 11. 2018:

THQ Nordic

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The recommendation Buy was set on 2018-09-11 as the first recommendation for the company at the share price of SEK 183.8.

Share prices mentioned in this report refer to the preliminary closing price from 2018-09-11.

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## Company overview

SEKm	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018e	2019e	2020e
<b>P&amp;L</b>																			
Sales	-	-	-	-	-	-	-	-	-	8	12	102	178	213	302	508	3,884	5,079	6,094
growth (%)	n.m	n.m	n.m	n.m	n.m	n.m	n.m	n.m	n.m	n.m	50	750	75	20	42	68	665	31	20
EBITDA	-	-	-	-	-	-	-	-	-	-	-	-	95	105	132	273	1,023	1,598	2,102
margin (%)	n.m	n.m	n.m	n.m	n.m	n.m	n.m	n.m	n.m	n.m	n.m	n.m	53.5	49.4	43.8	53.7	26.3	31.5	34.5
EBITA	-	-	-	-	-	-	-	-	-	-	-	-	95	105	131	271	1,009	1,580	2,080
margin (%)	n.m	n.m	n.m	n.m	n.m	n.m	n.m	n.m	n.m	n.m	n.m	n.m	53.5	49.4	43.6	53.3	26.0	31.1	34.1
EBIT	-	-	-	-	-	-	-	-	-	-	-	-	68	67	95	188	425	802	1,126
margin (%)	n.m	n.m	n.m	n.m	n.m	n.m	n.m	n.m	n.m	n.m	n.m	n.m	38.3	31.3	31.5	37.1	11.0	15.8	18.5
Net income	-	-	-	-	-	-	-	-	-	-	-	-	-	51	72	139	311	611	872
growth (%)	n.m	n.m	n.m	n.m	n.m	n.m	n.m	n.m	n.m	n.m	n.m	n.m	n.m	n.m	40.4	93.4	123	96.6	42.8
Adj net income	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	51	72	139	311	611	872
growth (%)	n.m	n.m	n.m	n.m	n.m	n.m	n.m	n.m	n.m	n.m	n.m	n.m	n.m	n.m	40.4	93.4	123	96.6	42.8
<b>Balance sheet</b>																			
Tangible assets	-	-	-	-	-	-	-	-	-	-	-	-	-	2	4	8	12	18	24
Goodwill	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	24	407	407	407
Current assets	-	-	-	-	-	-	-	-	-	-	-	-	-	69	232	747	2,754	3,585	4,569
Cash	-	-	-	-	-	-	-	-	-	-	-	-	-	26	167	627	1,977	2,570	3,350
Total assets	-	-	-	-	-	-	-	-	-	-	-	-	-	175	465	1,329	4,599	5,704	6,996
Equity	-	-	-	-	-	-	-	-	-	-	-	-	-	84	345	1,073	2,896	3,507	4,380
LT int bearing debt	-	-	-	-	-	-	-	-	-	-	-	-	-	1	-	-	-	-	-
ST int bearing debt	-	-	-	-	-	-	-	-	-	-	-	-	-	10	29	57	57	57	57
Current liab	-	-	-	-	-	-	-	-	-	-	-	-	-	82	108	215	1,662	2,156	2,576
Total liabilities	-	-	-	-	-	-	-	-	-	-	-	-	-	175	465	1,329	4,599	5,704	6,996
Net int bearing debt	-	-	-	-	-	-	-	-	-	-	-	-	-	-14	-139	-572	-1,923	-2,516	-3,296
<b>Cash flow</b>																			
FFO	-	-	-	-	-	-	-	-	-	-	-	-	-	110	99	179	1,772	1,663	2,064
Capex	-	-	-	-	-	-	-	-	-	-	-	-	-	-73	-157	-377	-818	-1,070	-1,284
Free cash flow	-	-	-	-	-	-	-	-	-	-	-	-	-	37	-58	-198	954	593	780
Acquisitions	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-1,116	-	-
Divestments	-	-	-	-	-	-	-	-	-	-	-	-	-	3	-	-	-	-	-
FCF to equity	-	-	-	-	-	-	-	-	-	-	-	-	-	40	-58	-198	-162	593	780
<b>Ratios (%)</b>																			
Pre-tax ROIC	n.m	n.m	n.m	n.m	n.m	n.m	n.m	n.m	n.m	n.m	n.m	n.m	n.m	n.m	95.2	76.5	137	161	200
ROE reported	n.m	n.m	n.m	n.m	n.m	n.m	n.m	n.m	n.m	n.m	n.m	n.m	n.m	n.m	33.5	19.6	15.7	19.1	22.1
ROCE	n.m	n.m	n.m	n.m	n.m	n.m	n.m	n.m	n.m	n.m	n.m	n.m	n.m	n.m	40.5	25.0	20.8	24.6	28.2
Capex to sales	0	0	0	0	0	0	0	0	0	0	0	0	0	34.2	51.9	74.2	21.1	21.1	21.1
NWC to sales	n.m	n.m	n.m	n.m	n.m	n.m	n.m	n.m	n.m	n.m	0	0	0	-13.5	-4.8	-7.4	-21.3	-21.3	-21.3
Sales/assets (SEKx)	n.m	n.m	n.m	n.m	n.m	n.m	n.m	n.m	n.m	n.m	n.m	n.m	n.m	2.43	0.94	0.57	1.31	0.99	0.96
Sales/IC (x)	n.m	n.m	n.m	n.m	n.m	n.m	n.m	n.m	n.m	n.m	n.m	n.m	n.m	2.19	1.44	>500	>500	>500	>500
Net debt/equity	n.m	n.m	n.m	n.m	n.m	n.m	n.m	n.m	n.m	n.m	n.m	n.m	n.m	-16.9	-40.2	-53.3	-66.4	-71.7	-75.2
Equity/total assets	n.m	n.m	n.m	n.m	n.m	n.m	n.m	n.m	n.m	n.m	n.m	n.m	n.m	48.0	74.2	80.8	63.0	61.5	62.6
<b>Share data</b>																			
Avg no shares (m)	-	-	-	-	-	-	-	-	-	-	-	-	-	60.0	61.1	73.9	84.0	88.2	88.2
change (%)	n.m	n.m	n.m	n.m	n.m	n.m	n.m	n.m	n.m	n.m	n.m	n.m	n.m	n.m	2	21	14	5	0.0
Avg diluted shares (m)	-	-	-	-	-	-	-	-	-	-	-	-	-	60.0	61.1	73.9	84.0	88.2	88.2
change (%)	n.m	n.m	n.m	n.m	n.m	n.m	n.m	n.m	n.m	n.m	n.m	n.m	n.m	n.m	1.9	21.0	13.6	5.0	0.0
Share price YE (SEK)	-	-	-	-	-	-	-	-	-	-	-	-	-	-	33.2	79.3	183.8	183.8	183.8
Market cap	n.m	n.m	n.m	n.m	n.m	n.m	n.m	n.m	n.m	n.m	n.m	n.m	n.m	n.m	2,391	6,279	16,203	16,203	16,203
EV	n.m	n.m	n.m	n.m	n.m	n.m	n.m	n.m	n.m	n.m	n.m	n.m	n.m	n.m	2,253	5,707	14,280	13,687	12,907
Net debt/share (SEK)	n.m	n.m	n.m	n.m	n.m	n.m	n.m	n.m	n.m	n.m	n.m	n.m	n.m	-0.2	-1.9	-7.2	-21.8	-28.5	-37.4
EPS reported (SEK)	-	-	-	-	-	-	-	-	-	-	-	-	-	0.85	1.18	1.88	3.70	6.9	9.9
growth (%)	n.m	n.m	n.m	n.m	n.m	n.m	n.m	n.m	n.m	n.m	n.m	n.m	n.m	n.m	38	60	97	87	43
EPS adj (SEK)	n.m	n.m	n.m	n.m	n.m	n.m	n.m	n.m	n.m	n.m	n.m	n.m	n.m	0.85	1.18	1.88	3.70	6.9	9.9
growth (%)	-	-	-	-	-	-	-	-	-	-	-	-	-	-	38	60	97	87	43
DPS - Ordinary	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
<b>Valuation (x)</b>																			
P/E reported	n.m	n.m	n.m	n.m	n.m	n.m	n.m	n.m	n.m	n.m	n.m	n.m	n.m	n.m	28.2	42.1	49.7	26.5	18.6
P/E adjusted	n.m	n.m	n.m	n.m	n.m	n.m	n.m	n.m	n.m	n.m	n.m	n.m	n.m	n.m	28.2	42.1	49.7	26.5	18.6
P/CEPS	n.m	n.m	n.m	n.m	n.m	n.m	n.m	n.m	n.m	n.m	n.m	n.m	n.m	n.m	18.6	26.2	17.0	11.5	8.8
EV/EBITDA	n.m	n.m	n.m	n.m	n.m	n.m	n.m	n.m	n.m	n.m	n.m	n.m	-	-	17.0	20.9	14.0	8.6	6.1
EV/sales	n.m	n.m	n.m	n.m	n.m	n.m	n.m	n.m	n.m	n.m	-	-	-	-	7.5	11.2	3.7	2.7	2.1
EBIT margin (%)	n.m	n.m	n.m	n.m	n.m	n.m	n.m	n.m	n.m	n.m	n.m	n.m	53.5	49.4	43.6	53.3	26.0	31.1	34.1
P/sales	n.m	n.m	n.m	n.m	n.m	n.m	n.m	n.m	n.m	n.m	n.m	n.m	n.m	n.m	6.7	11.5	4.0	3.2	2.7
ROE reported (%)	n.m	n.m	n.m	n.m	n.m	n.m	n.m	n.m	n.m	n.m	n.m	n.m	n.m	n.m	33.5	19.6	15.7	19.1	22.1
FCF adj yield (%)	n.m	n.m	n.m	n.m	n.m	n.m	n.m	n.m	n.m	n.m	n.m	n.m	n.m	n.m	-2.4	-3.1	5.9	3.7	4.8

Source: Handelsbanken Capital Markets

### Event calendar

(No data)

### Management

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### Company profile

THQ Nordic is a game developer and publisher, operating under the THQ Nordic and Deep Silver brands. It has the strategy to buy the IP for successful games series and then releases new or updated versions for its fan base, widening distribution and ports it to different platforms (e.g. making a PC game playable on console).

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