

Weekly News Digest #51

19

of announced deals

\$1.7B

announced deals' size

14

of closed deals



[Playtika files for IPO on NASDAQ.](#)

Founded in 2010, Israel-based mobile social games developer and publisher **Playtika** has made its way to the IPO on NASDAQ under the symbol "PLTK". The company has filed [S-1 filing](#) but hasn't disclosed the target share price yet. Previously, in Oct'2020, Playtika was rumored to prepare for IPO, raising \$1B+ at the valuation of over \$10B.

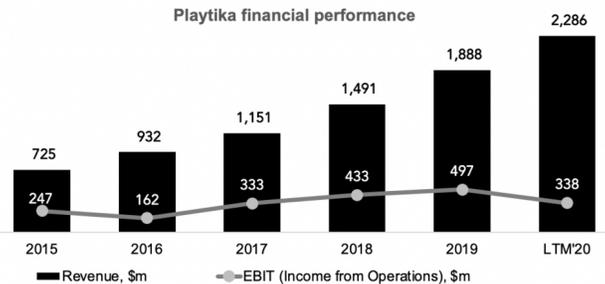
Playtika — a great example of a mobile gaming business with high ROI

The \$10B+ IPO should result in a high return to China-based **Giant Investment**, which has acquired Playtika through its subsidiary Alpha Frontier for \$4.4B in 2016. Besides, Playtika has already distributed around \$2.8B dividends to its shareholders during 2018-2019 years.

Playtika — a profitable and rapidly growing business

In the twelve months ended Sep-30, 2020, Playtika had ~\$2.3B Revenue and ~\$0.8B adj. EBITDA (~36% margin) with 21% revenue CAGR over 2015-LTM 2020 period. Such strong EBITDA margin is the result of personalized retargeting campaigns and ability to retain paying audience over the long term period.

Playtika financial performance



M&A — a key element of Playtika's growth strategy

Playtika relies heavily on the inorganic growth strategy, primarily expanding its game portfolio through acquisitions, which has been the key driver of revenue and profitability — c. 60% of total revenue comes from acquired titles. So far, Playtika has acquired 7 game studios, and 7 of the top-nine company's games are owned by the acquired studios.

- The company explains such success by Playtika Boost Platform, which provides live-ops services and technologies to newly acquired studios increasing their scale and profitability.

Over 2017-2019 Playtika has spent ~\$645m for the execution of M&As (net of cash) with major ones being:

- Finland-based puzzle game developer Seriously (purchase price of up to \$351m in Aug'2019);
- Austria-based solitaire game developer Supertreat (up to \$200m in Jan'2019);
- Germany-based puzzle games developer Wooga (\$204m in Nov'2018).

- Playtika's operating cash flow during 2017-2019 accounted for \$1.3B, meaning that Playtika didn't need to use external financing to perform its M&As, fully financing all its deals from existing operating cash.

Major concerns

Upon the completion of the proposed IPO, China-based Giant will retain the controlling stake in Playtika. Therefore, Playtika remains a Chinese-owned company, and it may face some problems as a result of Chinese and the US government tensions, that may result in the restriction of Playtika operations in the US, including:

- executing investment activities in the US (Playtika has been historically growing through M&A);
- storing personal data of US citizens (70% of its revenue comes from the US market).

Playtika is a highly leveraged business with \$2.2B long-term debt (as of Sep-30, 2020). Such significant indebtedness is primarily the result of huge dividend distribution to the stockholder of \$0.4B for 2018 and \$2.4B for 2019 that was fully financed by the bridge loan facility. The company is subject to obligations and restrictive covenants.

Business highlights (for the nine months ended Sep'2020)

- 57% of revenues generated by casino-themed games and 43% by casual games;
- 35.2 million average MAUs and 11.4 million average DAUs;
- 80% of revenue generated by mobile platform and 20% by web;
- 98% of revenue generated by the company's top nine games;
- 97% of revenue generated by in-app purchases.

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STILLFRONT
GROUP



[Stillfront Group acquires Sandbox Interactive and Super Free Games for ~\\$310m upfront](#)

Sweden-based mobile game developer and publisher **Stillfront Group** (OM:SF) has entered into an agreement to acquire 100% of San Francisco-based mobile game developer **Super Free Games** and 100% of Berlin-based PC & mobile F2P MMORPG developer **Sandbox Interactive**.

The total upfront consideration for both transactions accounts for ~\$310m, with a significant portion of consideration being paid in shares: 23% for Sandbox and 53% for Super Free. The valuation multiples based on the annualized estimated 2020 financials account for:

> around 25x EBIT'20 for Sandbox Interactive (21x EBIT'20 upfront + at least 4x EBIT'20 earn-out)
 > around 20x EBIT'20 for Super Free Games (15x EBIT'20 upfront + approx. 5x EBIT'20 earn-out)

Nevertheless, such multiples should be seen in the context of high growth expected in 2021. In fact, Skillfront expects to double total EBITDA of both studios in 2021: from estimated \$20.1m adj. EBITDA in 2020 to \$47.2m mid-range adj. EBITDA 2021. Considering mid-range EBITDA'21 forecast of both studios, the total upfront EV/adj. EBITDA'21 multiple accounts for 6.5x (vs.15.4x upfront EV/adj. EBITDA'20).

Sandbox Interactive [\$159m upfront]

Period	9 months	12 months	12 months
in mUSD	Jan-Sep'20	est. 2020	Upfront mult
Net Revenue	11.6	15.5	10.3x
adj. EBITDA	6.4	8.5	18.7x
adj. EBIT	5.7	7.6	21.0x

Super Free Games [\$150m upfront]

Period	9 months	12 months	12 months
in mUSD	Jan-Sep'20	est. 2020	Upfront mult
Net Revenue	57.6	76.8	2.0x
adj. EBITDA	8.7	11.6	12.9x
adj. EBIT	7.3	9.7	15.4x

Through these acquisitions Skillfront:

- 1) adds rapidly growing (\$100m+ run-rate revenue) casual mobile games developer Super Free Games, known for word title with recently launched promising trivia game [Trivia Star](#) in Mar'20 and 5+ casual titles in the pipeline;
- 2) enters into the MMORPG genre with well-known medieval fantasy sandbox, [Albion Online](#), with PC F2P release in 2019 and planned mobile release in H1 2021;
- 3) increases Q3 YTD Net Revenue by 22% (~\$70m) and adj. EBITDA by 11% (~\$15m) with further strong revenue growth potential in 2021 — over \$205m Net Revenue contribution.

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[Keywords Studios acquires High Voltage \(\\$50m\), Indigo Pearl \(~\\$3m\), and Jinglebell \(~\\$2m\).](#)

Dublin-based technical & creative gaming services provider [Keywords Studios](#) (LON: KWS) has entered into an agreement to acquire US-based provider of PC/Console game development services [High Voltage Software](#) for up to \$50m total consideration (~70% upfront).

- Based on the expected target's EBITDA for 2021 of approx. \$9.0m, the transaction multiples are 3.7x upfront EV/EBITDA'21 and 5.6x total EV/EBITDA'21.

Founded in 1993, High Voltage Software has participated in the development of 100+ titles across multiple genres, including such AAA projects as *Fortnite*, *Saints Row*, and *Mortal Kombat*. This year, High Voltage has worked on VR action game *The Walking Dead: Saints and Sinners*, as well as *Fortnite's* Seasons 12/13.

With this acquisition, Keywords gets an experienced team of developers who created games for various platforms and engines. Moreover, a recent collaboration with Epic Games on their flagship game gave the team additional expertise in Unreal Engine development.

Apart from that, Keywords Studios has acquired UK-based PR agency [Indigo Pearl](#) for up to \$2.7m and Italy-based audio production & recording studio [Jinglebell](#) for \$2.2m. These two acquisitions will expand the list of marketing and audio services of Keywords Studio, which is another step towards Keywords strategy of becoming a full-scale service provider for game industry.

Notable Transactions

PUBLIC MARKETS

Hong Kong-based game developer and distributor [Leyou Technologies](#) (HKG: 01089) is going private, withdrawing its listing from the Hong Kong Stock Exchange on December 23, after its shareholders approved [earlier announced \\$1.4B deal](#) with [Tencent](#) (SEHK: 700).

Mobile competitive games platform [Skillz](#) (NYSE: SKLZ) went public on the NYSE through the business combination with publicly-traded SPAC [Flying Eagle Acquisition Corp.](#) During the first days of trading Skillz closing price increased by over 25%. The current market cap is \$3.6B.

[Zynga Inc.](#) (Nasdaq: ZNGA) [has received](#) \$874.5m via a private placement of 0% convertible senior notes due 2026. Earlier this month, Zynga [has entered into](#) a three-year secured revolving loan facility in the amount of up to \$425m, which will replace \$200m of previous revolving credit line provided in 2018.

[Embracer Group](#) (SSE: EMBRAC B) [has raised](#) over \$360m through a new credit facility, which brings the total cash at hand and available credit facilities to approx. \$1.4B. Embracer, which is known for its extremely strong M&A activity ([25+ acquisitions](#) in 2020), will use the proceeds to further support its inorganic growth strategy.

MERGERS & ACQUISITIONS

Swedish game investment holding [Modern Times Group](#) (ST:MTGA) [has completed](#) the acquisition of UK-based mobile racing games developer and publisher [Hutch Games](#) for up to \$375m.

American office products manufacturer [ACCO Brands Corporation](#) [has completed](#) the acquisition of [PowerA](#), a producer of controllers, headsets, and other gaming accessories.

San Francisco-based video game engine developer [Unity Software](#) (NYSE: U) has acquired Tel Aviv-based 3D/AR capturing and visualization platform [RestAR](#) for an undisclosed sum.

California-based video game platform [Roblox](#), which recently [postponed its](#) IPO to the next year, [has acquired](#) 3D avatars platform [Loom.ai](#) for an undisclosed sum.

VENTURE FINANCING

Gamers communication platform [Discord](#) [has secured](#) \$100m in a Series H round led by [Greenoaks Capital](#) at approx. \$7B valuation, which is two times higher than the valuation in the previous \$100m round closed in June'20. The current round is still open, with the expected total proceeds of \$140m.

Including the latter, the total raised amount to date accounts for \$420m. Currently, Discord has 140 million MAU (x2 times higher than last year) and expects \$100m revenue (x3 times higher than last year).

American cloud streaming tech company **Parsec** has raised \$25m in a Series B round led by **Andreessen Horowitz**. Taking into account the Series B, the total raised financing reaches over \$32m.

US-based social gaming platform **Rec Room** has raised \$20m in a Series C funding round led by **Madrona Venture Group**.

INVESTGAME

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