

Weekly News Digest #47

19

of announced deals

\$1.31B

announced deals' size

13

of closed deals

Hi everyone,

Last week we decided to create the archive of the weekly newsletter for your convenience — [click here to access it](#).



[Roblox to go public on the New York Stock Exchange](#)

CA-based video game platform **Roblox** has filed its [S-1 registration](#) documents targeting an IPO on NYSE before the end of this year. Roblox has neither disclosed the sum it's planning to raise, nor the valuation of the company.

Founded in 2004, Roblox Corporation has raised \$335.9m investments over the course of 8 rounds with the most recent Series G round closed in Feb 2020 — raising \$150m at a \$4B post-money valuation. Just eight months later in Oct 2020, Roblox's rumored potential IPO valuation was said to be \$8B. Such an impressive valuation enhancement could be explained by the strong demand for entertainment content due to COVID-19 and shelter-in-place orders (Roblox's DAUs increased by 90% from 19.1m in Q4'19 to 36.2m DAU in Q3'20).

The company's financial results over the last twelve months ending 30 Sep 2020 are:

> \$1,477m Bookings vs. \$727m Revenue — Roblox gradually recognizes revenue over the average lifetime of a paying user;

> (\$245m) Loss from operations vs. +\$301m Free cash flow.

Roblox is an operationally profitable business (taking into account bookings numbers), and we consider the rumored \$8B as a probable valuation at IPO. The valuation multiples in such case would be 5.4x Bookings, 11.0x Revenue, and 27x Free cash flow.

The IPO would result in a great return for multiple investors. *According to TechCrunch*, Altos Ventures is the principal stockholder having a 21.3% stake, Meritech Capital controls 10.3%, Index Ventures — 9.9%, Tiger Global — 7.3%, and First Round Capital — 6.3%.

One more interesting beneficiary is a usual suspect — Tencent, which has entered into a Joint Venture with Roblox in February 2019. According to the partnership agreement, Tencent is responsible for publishing of the Roblox localized version (named “Luobulesi”) in China. However, Tencent hasn't received the publishing license yet. On the one hand, it is a great untapped potential for Roblox and could become a driver for the future share price increase. On the other hand, political tensions between the US and Chinese governments, as well as the established presence of Beijing-based local competitor Reworld decrease the chances of a successful Roblox launch in China.

Business Overview

Roblox is an online user-generated tween-oriented gaming platform that allows people to create, share, and play their own games with each other. It is also an independent self-sustaining gaming ecosystem with its own network of developers, engine guidance, and policies to create, operate and earn from the games.

Unlike other video game companies, Roblox demonstrates an impressive capability to engage a young audience with ~54% of gamers being under 12 years and only 17% of gamers being 25+ years old.

Being first launched on PC in 2006, Roblox has evolved to mobile in 2011 (iOS launch, Android in 2014) and console in 2016 (Xbox). While being present across multiple platforms, Roblox is primarily focused on mobile with 72% of users' sign-ups, whereas PC stands for 25% and console — only 3% as of nine months ended Sep 30, 2020.



Embracer Group announced 13 acquisitions for \$441.5m

Embracer Group (SSE: EMBRAC B) announced 13 acquisitions including 2 mobile-focused studios, 9 PC/Console studios, 1 QA provider, and 1 PR agency for the total purchase price of up to \$441.5m:

- > The total purchase price consists of \$232.5m upfront consideration and \$209m maximum earn-out payments subject to targets' performance over the period of up to 10 years;
 - > A typical payment deal structure for Embracer, where ~53% of the purchase price comes as an upfront consideration and the remaining 47% as an earn-out with a relatively long time-period for KPI-based payments;
 - > Embracer continues to use equity for M&A financing to align founders' interests: 15% of the upfront and 50% of the earn-out will be paid in Embracer's shares;
 - > Embracer proactively leverages its operating units (5 of 13 acquisitions made by wholly-owned subsidiary Saber Interactive) and industry network (Koch Media, Amplifier Game Invest) to identify new M&A targets;
 - > Announced acquisitions could improve Embracer's performance in the financial year ending 31 March 2022 with total net sales increase by \$99m-\$122m and operational EBIT increase by \$35-\$47m. Based on these projections, the cumulative valuation multiples account for:
 - i) excluding earn-out: 1.9—2.4x Net Sales and 5.0—6.7x EBIT;
 - ii) including earn-out: 3.6—4.5x Net Sales and 9.5—12.7x EBIT.
- Both are substantially below current trading multiples of Embracer 8.6x LTM EV/Revenue and 136.7x LTM EV/EBIT (*source: Capital IQ*).

This time the two largest transactions were Poland-based PC/Console game developer **Flying Wild Hog** (\$135 upfront / \$7 earn-out), known for *Shadow Warrior* Series, and Canada-based mobile gaming studio **Thinking Ape** (\$31m upfront / \$74m earn-out). Acquisition of quality assurance service provider, Quantic Lab, and veteran PR agency, Sandbox Strategies, will benefit Embracer's ecosystem with a decentralized approach.

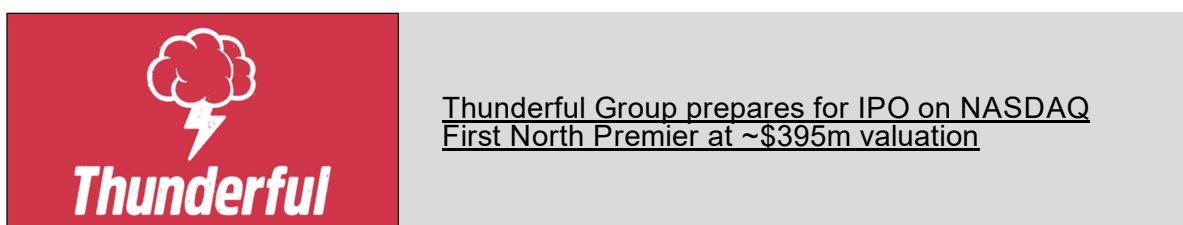
While being a diversified business in terms of the value chain (IP-owner, developer, publisher, distributor), Embracer's primary focus was mid-end premium PC/Console games with relatively low development costs. However, starting this year Embracer expands into:

1. the mobile space with the acquisition of **Deca** (~\$100m) and recent add-on of A Thinking Ape (~\$105m) and IUGO Games. We expect more Embracer's acquisitions in the mobile gaming sector, which is a great source of recurring revenue, provides diversification of product portfolio, and potential opportunity to increase audience by porting PC/Console games to mobile screens in the future;

2. GaaS business model implementing post-launch downloadable content, cross-play (e.g. World War Z's Dronemaster by Saber Interactive), and multiplayer (e.g. Metro series by 4A games) features in the existing hits, which smooths revenue and increases profitability;
3. the production of AAA games with higher budgets and returns starting with Metro Exodus (by recently acquired 4A Games). The company plans AAA releases for every year ahead.

After the acquisitions, Embracer has over \$985m (SEK 8.5B) cash at hand and available credit facilities. In addition, the company plans to issue B shares in the amount not exceeding 10% of the total shares, which is approximately \$850m. Given the recently announced news about Embracer having M&A discussions with 100 entrepreneurs during the past three months and lucrative cash position, we expect more deals in the nearest future.

Since its IPO in 2016, Embracer has allocated around \$1.9B (SEK16.3B) to acquisitions (incl. earn-out considerations and recently announced deals), increased net sales by ~26x times (from SEK 0.3B to SEK 7.3B) and operational EBIT by 22x times (from SEK 90m to SEK 1,953m) — an incredible financial performance improvement over 4 years of operations, leading to 18x times growth in market capitalization.



Sweden-based gaming-related business **Thunderful Group AB** prepares for IPO on NASDAQ First North Premier Growth Market. As a result of the listing, the company aims to raise around \$90m (SEK 750m) at approximately \$395m (SEK 3.4B) valuation.

The offering will consist of both newly issued and existing shares offered by selling shareholders. The final terms and conditions of the offering will be published later. However, several investors have already confirmed their interest in Thunderful Group's shares with plans to acquire roughly \$70m (17.5% stake).

Thunderful Group operates two business divisions:

- > *Distribution (91% of total net revenue)* including distribution of Nintendo products (Bergsala), toys (Amo Toys), and gaming accessories and boxed games (Nordic Game Supply);
- > *Games (~9% of total net revenue)*, including development and publishing of video games. The division shows rapid growth given recently announced closed transactions:

- Nov 2020: Thunderful acquired Sweden-based mobile-focused game developer Station Interactive for an undisclosed sum;
- Oct 2020: Thunderful acquired UK-based VR games developer Coatsink for up to \$85m (incl. earn-out), which almost doubled the gaming division size, adding \$9m net revenue over Jan-Sep 2020;
- Feb 2020: Thunderful acquired Sweden-based PC/VR game developer Guru Games.

Thunderful Group is planning to use the proceeds for the further expansion and acquisition of new facilities, the development of new games, and repayment of shareholders' debts, which occurred due to the recent acquisition of Coatsink. The offering is also expected to increase awareness among customers, suppliers, partners, and potential M&A targets.

Thunderful Group has also reported its financials over Jan-Sep 2020: Net Revenue of \$217m and EBITDA of \$27m — relatively low EBITDA margin of 12.5% is driven by the focus on distribution operations.

Notable Transactions

San Francisco-based mobile game publisher and developer **Kongregate** is buying three mobile titles from **Disney**: *Maleficent Free Fall* (6.5m downloads / \$10.6m net IAP revenue up to date), *Inside Out: Thought Bubbles* (39.9m / \$17.3m), and *Where's My Water? 2* (122.4m / \$1m).

Ubisoft has completed a 7-year bond issue (due November 2027), raising \$711m (€600m). Part of the proceeds will be used for general corporate purposes, while the other part can support future acquisitions.

Epic Games has acquired real-time facial animation company **Hyprsense** for an undisclosed sum. The deal will give Unreal Engine creators access to advanced character creation assets on different platforms. It's the 5th acquisition this year — the company actively scales its tech capabilities via M&A.

San Francisco-based mobile game studio **Lila Games** has raised \$2.8m of Seed investment to develop their first title, which is aimed to change the genre of mobile free-to-play shooters. The round was led by **BITKRAFT**.

Female-led esports organizations **Queens Gaming Collective** has officially announced its launch and raised \$1.5m in a Seed round led by **BITKRAFT**.

Tencent plans to invest more than \$30m into the *Peacekeeper Elite* esports ecosystem in China. *Peacekeeper Elite* is a Chinese version of the famous battle royale game *PUBG Mobile*.

German newly-founded gaming studio **Gunzilla Games** has received its first investment of \$25m. The company will focus on the development of AAA shooters for next-gen hardware.

Monaker Group has completed the acquisition of a 33% equity stake in **Axion Ventures**, AAA game developer and publisher, formerly known as **Epic Games China**.

Sweden XR solution provider with mobile gaming apps **Bublar Group** through its subsidiary **Goodbye Kansas** has raised ~\$1.2m from **Sumo Digital** for the development of a new AAA project.

American 3D avatar technology company **Genies** has received \$3m from **Bandai Namco** and announced the opening of a new office in Tokyo.

Seattle-based mobile game publisher and developer **Lightfox Games** has raised \$3.3m of Seed funding to develop games, that monetize like hypercasual ones but are closer to mid-core games in gameplay.

Danish esports organization **BLAST** has raised \$2.25m from **Edge Investments** to accelerate its international expansion and supports its broader UK operations.