# Funcom

Sector: Gaming

## Strong, Stronger, Funcom

### Dune is a perfect fit

The upcoming online multiplayer game we already have stated is the biggest expected revenue driver 2021-2022 will be based on the Dune-universe after a six-year agreement with Legendary Studios has been signed. We hope and believe one of the other two planned Dune-games will be a spiritual successor to Dune II.  We think a Dune strategy game developed by Petroglyph is a project that would be well received.

### Higher expectations on Q2 2019

Recently the first gameplay of Conan Unconquered was shown. The gameplay looks promising and can best be explained as a "Survival RTS" were elements of building and survival is primary. After the new gameplay and more information about the game we are more confident about the commercial potential and estimate net sales of USD 4.7 million (USD 3.5 million) in 2019. We believe the majority of sales will come the first month meaning USD 2.7 million (USD 2 million) will come in Q2 2019.

### A more optimistic scenario is justifiable

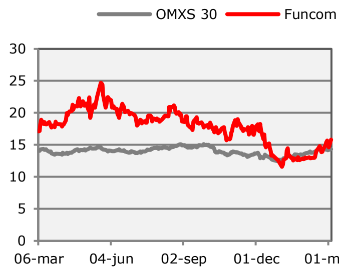
We have changed our sales estimates somewhat, especially in Q2 2019 were we see two important growth drivers, both Conan Unconquered and Mutant Year Zero for Nintendo Switch. We believe a spiritual successor to Dune II developed by Petroglyph is highly likely. Our assumption is that this game will be released in 2021. A consequence to that assumptions a higher revenue estimate for Funcom's publishing business in 2021.

These changes has resulted in a changed base case of NOK 19.5 (previous NOK 18) with a fair value range of NOK 8-31 (unchanged).

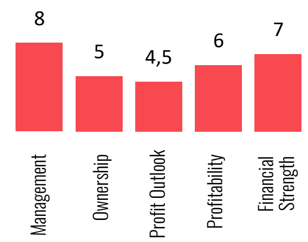
FAIR VALUE RANGE

| BEAR | BASE | BULL |
|---|---|---|
| 8.0 | **19.5** | 31.0 |

**FUNCOM.OL VERSUS OMXS30**




**REDEYE RATING**




**KEY STATS**

| | |
|---|---|
| Ticker | FUNCOM.OL |
| Market | Oslo Bors |
| Share Price (NOK) | 16.2 |
| Market Cap (MUSD) | 148 |
| Net Cash 19E (MUSD) | 12 |
| Free Float | 70 % |

| KEY FINANCIALS (USDm) | 2016 | 2017 | 2018E | 2019E | 2020E | 2021E |
|---|---|---|---|---|---|---|
| Net sales | 7 | 23 | 34 | 31 | 45 | 61 |
| EBITDA | 0 | 10 | 18 | 13 | 30 | 43 |
| EBIT | -2 | 7 | 10 | 3 | 11 | 17 |
| EPS (adj.) | 0.0 | 0.1 | 0.1 | 0.0 | 0.1 | 0.2 |
| EV/Sales | 0.5 | -0.2 | 3.5 | 4.4 | 3.0 | 2.0 |
| EV/EBITDA | 14.5 | -0.4 | 6.7 | 10.6 | 4.5 | 2.9 |
| EV/EBIT | -2.1 | -0.6 | 11.7 | 41.6 | 12.5 | 7.6 |
| P/E | 0.0 | 0.0 | 23.7 | 57.0 | 17.2 | 11.2 |

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# Dune is a perfect fit

**Dune Online**

The upcoming online multiplayer game we already have stated is the biggest expected revenue driver 2021-2022 will be based on the Dune-universe after a six-year agreement with Legendary Studios has been signed.

As stated when Funcom unveiled the news, making an multiplayer online game in the Dune-universe is in many ways a dream project for the employees at Funcom. This if something that should raise the standard of the game which in the end should be a good thing for Funcom-shareholders. How strong the IP is for the broader audience is however somewhat uncertain at the moment. However, we think high-quality storytelling and timeless brands such as Dune always will work.

**Books and movies**

The science fiction book series “Dune” is written by Frank Herbert, with the first novel published in 1965. Reviews of the first novel have been largely positive, and Dune is considered by some critics to be the best science fiction book ever written. As of 2000, it had sold over 12 million copies worldwide, and it has been regularly cited as one of the world's best-selling science fiction novels. A total of six books was written by Frank Herbert and later the universe was further expanded by his son Brian Herbert.

In 1984 famous director David Lynch released a movie based on the book. Today this film is considered a cult classic, but the reception was not good. The film was hard to understand, and the budget was most likely big so probably not commercially successful. In 2000 a mini-series was made and was one of the highest- rated programs broadcast on the Sci-Fi Channel.

On November 20, 2020, probably one of the most hyped directors Denis Villeneuve is expected to release a movie distributed by Warner Bros. Denis Villeneuve recently directed Blade Runner 2049, a movie which was critically acclaimed and made good (but not great) results on the box office worldwide.

**The legacy of Dune II**

In 1992 the game Dune II which laid the foundation for the entire Real Time Strategy genre (RTS). As we wrote in the initiation report Funcom’s publishing partner Petroglyph consist of two of the leading men behind Dune II. We hope and believe one of the three expected Dune-games will be a spiritual successor to Dune II.  We think a Dune strategy game developed by Petroglyph is a project that would be very well received by the gaming community.

According to Westwood Studios, Dune II was a commercial success, with global sales in excess of 250,000 units by November 1996. The sales number was high at that time due to the PC-market was much smaller at that time.

In 1994, PC Gamer US named Dune II the 49th best computer game ever. That same year, PC Gamer UK named it the 21st best computer game of all time, calling it "a wargame for those who don't like wargames." In 2004, this "legendary" game entered the GameSpy Hall of Fame. In 2012, Time named it one of the 100 greatest video games of all time.

Dune II also led to direct sequels: Westwood released a semi-remake for Windows in 1998 called "Dune 2000", along with a PlayStation port in the same year. Westwood subsequently released "Emperor: Battle for Dune" in 2001. There are also fan-made game engine recreations, most popular is a game called "Dune Legacy". We have searched but not found any sales figures on all these sequels to Dune II.

Perhaps Dune II is most famous for being the spiritual successor to "Command and Conquered" released in 1995. By April 1996, Command & Conquer had sold 500,000 copies worldwide, and Westwood Studios reported sales above 1 million units by September of that year. Domestically, the game was the seventh-best-selling computer game for the first half of 1996. Sales across all platforms reached 1.7 million units by February 1997, and the game went on to sell more than three million through its lifetime.

## Conan Unconquered

The developer of Conan Unconquered is Petroglyph Games. The studio was founded in 2003 and consists of several veterans of Westwood Studios. The team, a total of 15 people, works out of an office in Las Vegas.

Petroglyph followed in Westwood Studios' footsteps and has specialized in RTS games. Their most successful game is Star Wars: Empire at War, released in 2006. The game has sold more than 6.7 million units. Petroglyph has been active from the start but has begun to focus on smaller RTS indie games.

### Changed sales estimate after first gameplay

Recently the first gameplay of Conan Unconquered was shown. The gameplay looks promising and can best be explained as a "Survival RTS" were elements of building and survival is primary. Petroglyph is strongly influenced by games like "They are Billions" and "Frost Punk". Both games are is very successful.

They are Billions was released Dec 2017. Estimated owners on Steam according to Steamspy is about 770 000. We estimate have generated approximately USD 8.5 million in net sales on Steam in one year. Frost Punk was released in April 2018 and has somewhat close to 1.3 million owners, which could mean net sales around USD 17 million in net sales according to our estimates.

In our initial report, we estimated Conan- Unconquered would generate approximately USD 3.5 million to Funcom during 2019. Our primary reference to that sales estimate was the studios previous game "Grey Goo". As Conan is a strong IP with an adult target audience we believe it is a good match to set a strategy game in the Conan universe. For this reason, it will likely sell better than for example "Grey Goo". Our estimate was deliberately very conservative. "They are Billions" sold approximately 0,5 million copies the first month generating about USD 7 million after platform cost. It is likely Conan Unconquered will generate USD 3.5-7 million in 6 months in net sales on Steam. After the new gameplay and more information about the game we are more confident about the commercial potential of the game and estimate net sales of USD 4.7 million in 2019. We believe the majority of sales will come the first month meaning USD 2.7 million (previous USD 2 million) will come in Q2 2019.

# Financials

**The Q4-report** from Funcom was somewhat better than expected. Net sales were USD 8.4 million, exactly USD 1 million better than our estimate. EBITDA was also exactly USD 1 million above our expectations.

| Funcom: Estimate vesus result | | | | |
|---|---|---|---|---|
| **mUSD** | **Q3'18** | **Q4'18** | **Q4'18E** | **Diff** |
| **Net sales** | **7.5** | **8.4** | **7.4** | **13%** |
| of which Games | 7.5 | 4.9* | 4.4 | |
| Publishing | 0.0 | 3.5* | 3.0 | |
| **OPEX** | -2.9 | -3.7 | -3.7 | **0%** |
| **EBITDA** | **4.6** | **4.7** | **3.7** | **27%** |
| D&A | -1.8 | -3.3 | -2.8 | **-17%** |
| ***EBIT*** | **2.9** | **1.4** | **0.9** | **61%** |
| *Net sales growth* | **25%** | **166%** | **135%** | **42%** |
| **EBITDA margin** | **62%** | **56%** | **50%** | **51%** |
| **EBIT margin** | **38%** | **17%** | **12%** | **29%** |

Source: Redeye Research, Funcom

* Redeye estimate

## Projections for 2019

Due to higher D&A than expected in Q4 2018 we have increased our D&A estimates in 2019-2021.

**Revenue drivers in Q1 2019**

Free weekend: With a start today, March 7, Conan Exiles will have a free weekend on Steam. During so-called free weekends concurrent users (CCU) increase which always gives a sales boost (both for the original game and game expansions/DLCs).

Mutant Year Zero sales: During Q1 we have seen discounts on the game both on PC and PlayStation. On PC a free DLC has also been released. Due to the high quality of this game and the fact that this kind of strategy games often has "long tail" sales we believe the game still has pretty decent sales momentum. According to Steamspy, 120 000 copies have been sold at the beginning of March, in comparison, these number was 80 000 copies at the beginning of the year. We estimate the game will generate USD 1.8 million in Q1 based on these sales numbers. We believe the game will also reach profitability in Q1 2019.

| Funcom: Estimate 2019-2021 | | | | | | | |
|---|---|---|---|---|---|---|---|
| **mUSD** | **Q1'19E** | **Q2'19E** | **Q3'19E** | **Q4'19E** | **2019E** | **2020E** | **2021E** |
| **Net sales** | **6.8** | **9.6** | **8.3** | **5.8** | **30.6** | **45.1** | **61.2** |
| *of which Games* | *5.1* | *4.6* | *4.3* | *3.7* | *17.6* | *30.8* | *41.2* |
| *Publishing* | *1.8* | *5.1* | *4.0* | *2.1* | *12.9* | *14.3* | *20.0* |
| OPEX | -3.1 | -6.3 | -5.0 | -3.5 | -17.8 | -15.3 | -18.8 |
| **EBITDA** | **3.8** | **3.4** | **3.3** | **2.3** | **12.8** | **29.8** | **42.4** |
| D&A | -2.4 | -2.9 | -2.5 | -1.7 | -9.5 | -19.0 | -25.8 |
| **EBIT** | **1.4** | **0.5** | **0.8** | **0.6** | **3.3** | **10.8** | **16.5** |
| | | | | | | | |
| Net sales growth | 155% | -37% | 11% | -31% | -10% | 48% | 36% |
| EBITDA margin | 55% | 35% | 40% | 40% | 42% | 66% | 69% |
| EBIT margin | 20% | 5% | 10% | 10% | 11% | 24% | 27% |

*Source: Redeye Research, Funcom*

**Revenue drivers in Q2 2019**

Conan Unconquered: After the new gameplay and more information about the game we are more confident about the commercial potential of the game and estimate net sales of USD 4.7 million in 2019. We believe the majority of sales will come the first month meaning USD 2.7 million (previous USD 2 million) will come in Q2 2019.

Mutant Year Zero on Switch: The game has a good prospect of being released for Nintendo's Switch, which has become the primary platform for many indie games and strategy games. The reason for this is that the platform is portable and that games of this type are not particularly technically demanding. Perhaps the most important reason is that this type of game sells very well on Nintendo Switch. We expect Mutant Year Zero to be released on Nintendo Switch in Q2 2019. We estimate the game will generate net sales of close to USD 2 million on Switch the first month.

## And beyond...

**Dune-games 2021-2022**

The new motion picture based on Dune is set to release in December 2020. We believe at least two Dune-games will be released in 2021. "Dune Online" is expected in 2021. The spiritual successor to Dune II (we will call it Dune III) have also the potential for a release in 2012. Of course, it is also likely one game will be based on the new movie, perhaps this is the third game that is planned.

Assumptions:

We believe Dune III will sell at least 0.5 million copies in three months generating net sales of around USD 7 million (similar to the success of "They are Billions".

We expect the Dune Online will generate net sales of USD 28 million in 2021. As a reference, we estimate Conan Exiles had net sales of USD 23 million the first year.

We expect royalty cost for Dune will be relatively low, which means around 10% as a minimum. Depending on the success for the motion we estimate royalty cost could be higher than that, perhaps an additional 5-10% meaning a total of 15-20%.

Currently, we have not changed our estimates on the Dune MMO. We have already fairly optimistic sales estimates on the game and see no reason at the moment to be less conservative.

# Investment Case

Funcom has now entered a new growth phase, having completed its turnaround in 2017. We expect the company's rebound to bring both decent earnings and lower risk – particularly in 2020 when the take-off could be explosive. This reflects the likely launch of at least five games over the next two years, with the new open-world survival game due to 2021 the biggest potential value driver among them.

CEO key to continued success – While 'Conan Exiles' is the game that saved the company from the crisis, CEO Rui Casais brings two key strengths to his role. Besides a consciousness of costs that is on a par with Lars Wingefors (THQ Nordic), he also exhibits the same understanding of games as Fredrik Wester (Paradox Interactive).

Diversification under way - After Funcom released its first game in its new publishing arm in Q4 18, two new publishing titles are scheduled for release in 2019. Over the next two years, the company is also likely to release three new proprietary games. These are spread across three different genres, and only one is a 'Conan' game.

Focus on cost and risk - Despite Funcom's big ambitions, the CEO focuses on keeping costs small. Almost all aspects of game production are handled internally, within very small and streamlined teams. Developing games that can show profitability at an early stage is a top priority. In our view, the CEO approaches the role as an investment manager and has selected attractive, high-quality projects with good sales potential. Modest investments also limit the company's risk in each publishing title, while their expected high quality gives good potential upside.

Powerful leverage - With an EBIT margin of around 35 % in the last quarter Funcom has already proved that it can achieve significant profitability. Its strongest earnings come from games developed in-house: the online open-world survival game due in 2021 could lift the company's performance to the next level.

Looking past 2019 - Although we expect no growth and weaker operating profit in 2019, this is already factored into the share price, in our view. With the upcoming 'Conan Unconquered' and more potential catalysts for the stock in 2019, the year could give some positive surprises. Smart investors should look ahead to 2020 - a year of potentially explosive growth.

# Valuation

## Bear Case 8.0 NOK

In our Bear case, we assume a weaker development for the newly launched Publishing and that the new self-developed projects will never be as great a success as Conan Exiles became. The weaker development of the gaming portfolio also leads to a weaker EBIT margin. In this scenario, we further assume that the company will continue to invest in new projects, but that these will only be of moderate commercial result. CAGR of 9% and an average EBIT margin of 18% the next coming 10 years.

## Base Case 19.5 NOK

In our Base case, we expect a strong contribution from Publishing in the next few years and that the unit accounts for around 30% of revenue when we reach the year 2021. Furthermore, we model that the new Open World Survival game reaches success close to Conan Exiles and creates good long- tail revenue but that both Conan Single Player and Mutant Chronicles become relatively small game releases CAGR of 19% and an average EBIT margin of 25% the next coming 10 years.

## Bull Case 31.0 NOK

In our Bull case, we model successes for most new projects within Funcom's internal game development. In this scenario, we expect a higher EBIT margin due to good development in foremost "Game as a Service". Publishing delivers and creates very good revenue through the multiple new projects initiated during 2020-2024. CAGR of 24% and an average EBIT margin of 31% the next coming 10 years.

# Catalysts

**Mutant Year Zero for Nintendo Switch**

The game has a good prospect of being released for Nintendo's Switch, which has become the primary platform for many indie games and strategy games. The reason for this is that the platform is portable and that games of this type are not particularly technically demanding. Perhaps the most important reason is that this type of game sells very well on Nintendo Switch. We expect Mutant Year Zero to be released on Nintendo Switch in 2019.

**Active players and sales**

Since the majority of the company's 2019 revenues are likely to come from 'Conan Exiles', data on this game will be notable for the stock. In particular, the number of active players (CCUs), free weekends and the release of new content (DLC) will be important for mapping Funcom's probable cash flow.

**'Conan Unconquered' – Q2 2019**

The first trailer was made public at the end of 2018. We expect to see gameplay during Q1 and anticipate the game being released in April or May. Although Funcom's investment in the game is relatively small, it has been developed by an experienced team. Accordingly, expectations for it are likely to build up before the release.

**'Mutant Chronicles'**

Half of Funcom's employees are developing a co-op shooter from the company's US offices. The game is based on a brand from the partly-owned Heroic Signatures IP portfolio. There is much to suggest that this is a game based on 'Mutant Chronicles', we believe. A bigger investment than Funcom's publishing titles, more information about this game should impact the stock.

**'The Secret World' ('The Park') –Q3 2019**

We believe that the secret game developed by Rock Pocket Games is a title based on Funcom's wholly-owned IP 'The Secret World'. We see a relatively high probability that it is based on the spinoff called "The Park". The reveal will be in Q2 at the latest, with both gameplay and launch potential catalysts for the stock.

# Summary Redeye Rating

The rating consists of five valuation keys, each constituting an overall assessment of several factors that are rated on a scale of 0 to 2 points. The maximum score for a valuation key is 10 points.

**Management: 8.0**

The new management with Rui Casias as the leading man has long experience with good understanding of the gaming industry and games in particular. The leadership has accomplished a turnaround and have a solid strategy for the company’s next phase. The company has still very good cost control and with a diversified portfolio of games in the pipeline. It is a clear link between performance and compensation.

**Ownership: 5.0**

The ownership is not optimal. Rui Casias owns too little of Funcom, according to our rating model. This is one of the reasons for setting our WACC for the company at 11.2%. We would regard it as encouraging if he were awarded a more generous option program and, preferably, were also to buy more shares privately. However, it is positive that Fredrik Malmberg, who owns 50% of Heroic Signatures, is also a major shareholder in Funcom.

**Profit Outlook: 4.5**

In-house game development will remain the company's primary focus. Funcom has been creating a name for itself in online games since the beginning of the 2000s, which means that we assume it will dedicate most of its investments to in-house development of these online games, particularly in the Open World Multiplayer category. However, the fact that the company is currently developing two games in the action genre, one of which is a first-person shooter (FPS), shows that it is also opportunistic here and is more than willing to diversify its products as it sees fit. We believe Funcom will scale up its publishing business in the future, and will probably invest mainly in more publishing titles. At the moment, Funcom is only making investments in the range of USD 2 –5 million. If the majority of its investments in the forthcoming publishing projects prove to be profitable, its willingness to take risks on promising projects will probably increase.

**Profitability: 6.0**

Funcom has now begun its growth journey and will show high growth under good profitability over the next few years, driven by the ongoing gaming projects, not yet announced projects and the new Publishing business unit. The ongoing diversification of the gaming portfolio, the focus on cost efficiency, healthy risk thinking and strong leadership is something that most likely will lead to a high EBIT-margin.

**Financial Strength: 7.0**

Funcom has a strong cash position of approximately USD 19 million and is debt free. The company operates in a non-cyclical business. The games portfolio will be more diversified in the next coming years.

| INCOME STATEMENT | 2016 | 2017 | 2018E | 2019E | 2020E |
|---|---|---|---|---|---|
| Net sales | 7 | 23 | 34 | 31 | 45 |
| Total operating costs | -7 | -13 | -16 | -18 | -15 |
| EBITDA | 0 | 10 | 18 | 13 | 30 |
| Depreciation | 0 | 0 | 0 | 0 | 0 |
| Amortization | -2 | -3 | -8 | -10 | -19 |
| Impairment charges | 0 | 0 | 0 | 0 | 0 |
| EBIT | -2 | 7 | 10 | 3 | 11 |
| Share in profits | 0 | 0 | 0 | 0 | 0 |
| Net financial items | -1 | 0 | -2 | 0 | 0 |
| Exchange rate dif. | 0 | 0 | 0 | 0 | 0 |
| Pre-tax profit | -3 | 7 | 8 | 3 | 11 |
| Tax | 1 | -2 | -2 | -1 | -2 |
| Net earnings | -2 | 5 | 6 | 3 | 9 |

| BALANCE SHEET | 2016 | 2017 | 2018E | 2019E | 2020E |
|---|---|---|---|---|---|
| Assets | | | | | |
| *Current assets* | | | | | |
| Cash in banks | 4 | 8 | 30 | 13 | 13 |
| *Receivables* | 1 | 2 | 3 | 3 | 5 |
| Inventories | 0 | 0 | 0 | 0 | 0 |
| Other current assets | 0 | 0 | 0 | 0 | 0 |
| Current assets | 5 | 10 | 33 | 16 | 18 |
| *Fixed assets* | | | | | |
| Tangible assets | 0 | 0 | 0 | 1 | 2 |
| Associated comp. | 0 | 0 | 0 | 0 | 0 |
| Investments | 0 | 0 | 0 | 0 | 0 |
| Goodwill | 0 | 0 | 0 | 0 | 0 |
| Cap. exp. for dev. | 0 | 0 | 0 | 0 | 0 |
| O intangible rights | 7 | 10 | 25 | 43 | 52 |
| O non-current assets | 0 | 1 | 0 | 0 | 0 |
| Total fixed assets | 7 | 11 | 25 | 45 | 54 |
| Deferred tax assets | 1 | 0 | 0 | 0 | 0 |
| Total (assets) | 13 | 20 | 59 | 61 | 72 |
| Liabilities | | | | | |
| *Current liabilities* | | | | | |
| Short-term debt | 0 | 3 | 0 | 0 | 0 |
| Accounts payable | 2 | 3 | 5 | 5 | 7 |
| O current liabilities | 0 | 0 | 0 | 0 | 0 |
| Current liabilities | 2 | 6 | 5 | 5 | 7 |
| Long-term debt | 7 | 0 | 0 | 0 | 0 |
| O long-term liabilities | 0 | 0 | 0 | 0 | 0 |
| Convertibles | 0 | 0 | 0 | 0 | 0 |
| Total Liabilities | 9 | 6 | 5 | 5 | 7 |
| Deferred tax liab | 0 | 1 | 2 | 2 | 2 |
| Provisions | 0 | 0 | 0 | 0 | 0 |
| Shareholders' equity | 4 | 14 | 51 | 54 | 63 |
| Minority interest (BS) | 0 | 0 | 0 | 0 | 0 |
| Minority & equity | 4 | 14 | 51 | 54 | 63 |
| Total liab & SE | 13 | 20 | 59 | 61 | 72 |

| FREE CASH FLOW | 2016 | 2017 | 2018E | 2019E | 2020E |
|---|---|---|---|---|---|
| Net sales | 7 | 23 | 34 | 31 | 45 |
| Total operating costs | -7 | -13 | -16 | -18 | -15 |
| Depreciations total | -2 | -3 | -8 | -10 | -19 |
| EBIT | -2 | 7 | 10 | 3 | 11 |
| Taxes on EBIT | 0 | 0 | 0 | 0 | 0 |
| NOPLAT | -2 | 7 | 10 | 3 | 11 |
| Depreciation | 2 | 3 | 8 | 10 | 19 |
| Gross cash flow | 0 | 10 | 18 | 13 | 30 |
| Change in WC | 1 | 0 | 1 | 0 | 1 |
| Gross CAPEX | -8 | -8 | -22 | -29 | -28 |
| Free cash flow | -8 | 3 | -3 | -16 | 2 |

| CAPITAL STRUCTURE | 2016 | 2017 | 2018E | 2019E | 2020E |
|---|---|---|---|---|---|
| Equity ratio | 30% | 67% | 88% | 89% | 88% |
| Debt/equity ratio | 187% | 26% | 0% | 0% | 0% |
| Net debt | 3 | -4 | -30 | -13 | -13 |
| Capital employed | 7 | 9 | 22 | 41 | 50 |
| Capital turnover rate | 0.6 | 1.1 | 0.6 | 0.5 | 0.6 |

| GROWTH | 2016 | 2017 | 2018E | 2019E | 2020E |
|---|---|---|---|---|---|
| Sales growth | 0% | 216% | 46% | -10% | 48% |
| EPS growth (adj) | 0% | -392% | 23% | -58% | 232% |

| DCF VALUATION | | CASH FLOW, MUSD | |
|---|---|---|---|
| WACC (%) | 11.2 % | NPV FCF (2018-2020) | -20 |
| | | NPV FCF (2021-2027) | 65 |
| | | NPV FCF (2028-) | 101 |
| | | Non-operating assets | 8 |
| | | Interest-bearing debt | -4 |
| | | Fair value estimate MUSD | 151 |
| Assumptions 2017-2023 (%) | | | |
| Average sales growth | 21.8 % | Fair value e. per share, USD | 2.3 |
| EBIT margin | 24.2 % | Share price, USD | 16.2 |

| PROFITABILITY | 2016 | 2017 | 2018E | 2019E | 2020E |
|---|---|---|---|---|---|
| ROE | 0% | 57% | 19% | 5% | 15% |
| ROCE | -29% | 47% | 30% | 6% | 19% |
| ROIC | 0% | 93% | 107% | 15% | 26% |
| EBITDA margin | 3% | 43% | 52% | 42% | 67% |
| EBIT margin | -22% | 29% | 30% | 11% | 24% |
| Net margin | -23% | 21% | 19% | 9% | 19% |

| DATA PER SHARE | 2016 | 2017 | 2018E | 2019E | 2020E |
|---|---|---|---|---|---|
| EPS | -0.02 | 0.07 | 0.08 | 0.03 | 0.11 |
| EPS adj | -0.02 | 0.07 | 0.08 | 0.03 | 0.11 |
| Dividend | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 |
| Net debt | 0.04 | -0.06 | -0.39 | -0.17 | -0.17 |
| Total shares | 74.98 | 74.98 | 77.01 | 77.01 | 77.01 |

| VALUATION | 2016 | 2017 | 2018E | 2019E | 2020E |
|---|---|---|---|---|---|
| EV | 3.4 | -4.2 | 118.6 | 135.7 | 135.4 |
| P/E | 0.0 | 0.0 | 23.7 | 57.0 | 17.2 |
| P/E diluted | 0.0 | 0.0 | 23.7 | 57.0 | 17.2 |
| P/Sales | 0.0 | 0.0 | 4.4 | 4.9 | 3.3 |
| EV/Sales | 0.5 | -0.2 | 3.5 | 4.4 | 3.0 |
| EV/EBITDA | 14.5 | -0.4 | 6.7 | 10.6 | 4.5 |
| EV/EBIT | -2.1 | -0.6 | 11.7 | 41.6 | 12.5 |
| P/BV | 0.0 | 0.0 | 2.9 | 2.7 | 2.4 |

| SHARE PERFORMANCE | | GROWTH/YEAR | 16/18E |
|---|---|---|---|
| 1 month | 25.5 % | Net sales | 114.9 % |
| 3 month | 2.1 % | Operating profit adj | � |
| 12 month | 15.5 % | EPS, just | � |
| Since start of the year | 36.4 % | Equity | 269.3 % |

| SHAREHOLDER STRUCTURE % | CAPITAL | VOTES |
|---|---|---|
| Kristian Gerhard Jebsen Group | 29.0 % | 29.0 % |
| Swedbank Robur Fonder | 9.6 % | 9.6 % |
| Tranicos LLC | 5.9 % | 5.9 % |
| Avanza Pension | 5.0 % | 5.0 % |
| Nordnet Pensionsförsäkring | 5.0 % | 5.0 % |
| Atle Pedersen | 1.1 % | 1.1 % |
| Gjestøy AS | 1.1 % | 1.1 % |
| Nordnet Livsforsikring AS | 1.0 % | 1.0 % |
| Egil Pettersen | 0.9 % | 0.9 % |
| Dimensional Fund Advisors | 0.8 % | 0.8 % |

| SHARE INFORMATION | |
|---|---|
| Reuters code | FUNCOM.OL |
| List | |
| Share price | 16.2 |
| Total shares, million | 77.0 |
| Market Cap, MUSD | 148.5 |

| MANAGEMENT & BOARD | |
|---|---|
| CEO | Rui Casais |
| CFO | Stian Drageset |
| IR | Ole Schreiner (COO) |
| Chairman | Ole Gladhaug |

**FINANCIAL INFORMATION**

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# Redeye Rating and Background Definitions

The aim of a Redeye Rating is to help investors identify high-quality companies with attractive valuation.

**Company Qualities**

The aim of Company Qualities is to provide a well-structured and clear profile of a company's qualities (or operating risk) – its chances of surviving and its potential for achieving long-term stable profit growth.

We categorize a company's qualities on a ten-point scale based on five valuation keys; 1 – Management, 2 – Ownership, 3 – Profit Outlook, 4 – Profitability and 5 – Financial Strength.

Each valuation key is assessed based a number of quantitative and qualitative key factors that are weighted differently according to how important they are deemed to be. Each key factor is allocated a number of points based on its rating. The assessment of each valuation key is based on the total number of points for these individual factors. The rating scale ranges from 0 to +10 points.

The overall rating for each valuation key is indicated by the size of the bar shown in the chart. The relative size of the bars therefore reflects the rating distribution between the different valuation keys.

**Management**

Our Management rating represents an assessment of the ability of the board of directors and management to manage the company in the best interests of the shareholders. A good board and management can make a mediocre business concept profitable, while a poor board and management can even lead a strong company into crisis. The factors used to assess a company's management are: 1 – Execution, 2 – Capital allocation, 3 – Communication, 4 – Experience, 5 – Leadership and 6 – Integrity.

**Ownership**

Our Ownership rating represents an assessment of the ownership exercised for longer-term value creation. Owner commitment and expertise are key to a company's stability and the board's ability to take action. Companies with a dispersed ownership structure without a clear controlling shareholder have historically performed worse than the market index over time. The factors used to assess Ownership are: 1 – Ownership structure, 2 – Owner commitment, 3 – Institutional ownership, 4 – Abuse of power, 5 – Reputation, and 6 – Financial sustainability.

**Profit Outlook**

Our Profit Outlook rating represents an assessment of a company's potential to achieve long-term stable profit growth. Over the long-term, the share price roughly mirrors the company's earnings trend. A company that does not grow may be a good short-term investment, but is usually unwise in the long term. The factors used to assess Profit Outlook are: 1 – Business model, 2 – Sale potential, 3 – Market growth, 4 – Market position, and 5 – Competitiveness.

**Profitability**

Our Profitability rating represents an assessment of how effective a company has historically utilised its capital to generate profit. Companies cannot survive if they are not profitable. The assessment of how profitable a company has been is based on a number of key ratios and criteria over a period of up to the past five years: 1 – Return on total assets (ROA), 2 – Return on equity (ROE), 3 – Net profit margin, 4 – Free cash flow, and 5 – Operating profit margin or EBIT.

**Financial Strength**

Our Financial Strength rating represents an assessment of a company's ability to pay in the short and long term. The core of a company's financial strength is its balance sheet and cash flow. Even the greatest potential is of no benefit unless the balance sheet can cope with funding growth. The assessment of a company's financial strength is based on a number of key ratios and criteria: 1 – Times-interest-coverage ratio, 2 – Debt-to-equity ratio, 3 – Quick ratio, 4 – Current ratio, 5 – Sales turnover, 6 – Capital needs, 7 – Cyclicality, and 8 – Forthcoming binary events.

# Redeye Equity Research team

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# Disclaimer

**Important information**
Redeye AB ("Redeye" or "the Company") is a specialist financial advisory boutique that focuses on small and mid-cap growth companies in the Nordic region. We focus on the technology and life science sectors. We provide services within Corporate Broking, Corporate Finance, equity research and investor relations. Our strengths are our award-winning research department, experienced advisers, a unique investor network, and the powerful distribution channel redeye.se. Redeye was founded in 1999 and since 2007 has been subject to the supervision of the Swedish Financial Supervisory Authority.
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**Redeye Rating (2019-03-06)**

| Rating | Management | Ownership | Profit outlook | Profitability | Financial Strength |
|---|---|---|---|---|---|
| 7,5p - 10,0p | 48 | 47 | 19 | 11 | 20 |
| 3,5p - 7,0p | 90 | 86 | 120 | 42 | 56 |
| 0,0p - 3,0p | 13 | 18 | 12 | 98 | 75 |
| Company N | 151 | 151 | 151 | 151 | 151 |

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**CONFLICT OF INTERESTS**

Tomas Otterbeck owns shares in the company : No
Kristoffer Lindström owns shares in the company : No
Redeye performs/have performed services for the Company and receives/have received compensation from the Company in connection with this.