

Q1 FY19/20 Interim Report

14 Aug 2019

THQNORDIC



Today's presenter:

- Lars Wingefors
- Co-Founder & Group CEO



1. Operational and financial performance

Operational and financial highlights

Financial performance driven by strong digital back catalog of owned games

Q1 FY19/20

Net sales
SEK 1,142m

YoY growth
36%

Operational EBIT
SEK 204m

YoY growth
193%

Cash flow from operating activities
(after change in working capital)
SEK 441m

Increased profitability driven by:

- Strong back catalog
- Owned titles
- Digital sales

MEIRO
EXODUS

SATISFACTORY
EARLY • ACCESS

Selected pipeline updates

Record investments in game development in the quarter:

SEK 356m

(SEK 208m same quarter last year)

81 pipeline projects

(of which 34 have been announced)

At least

two AAA projects

expected to be released in FY20/21

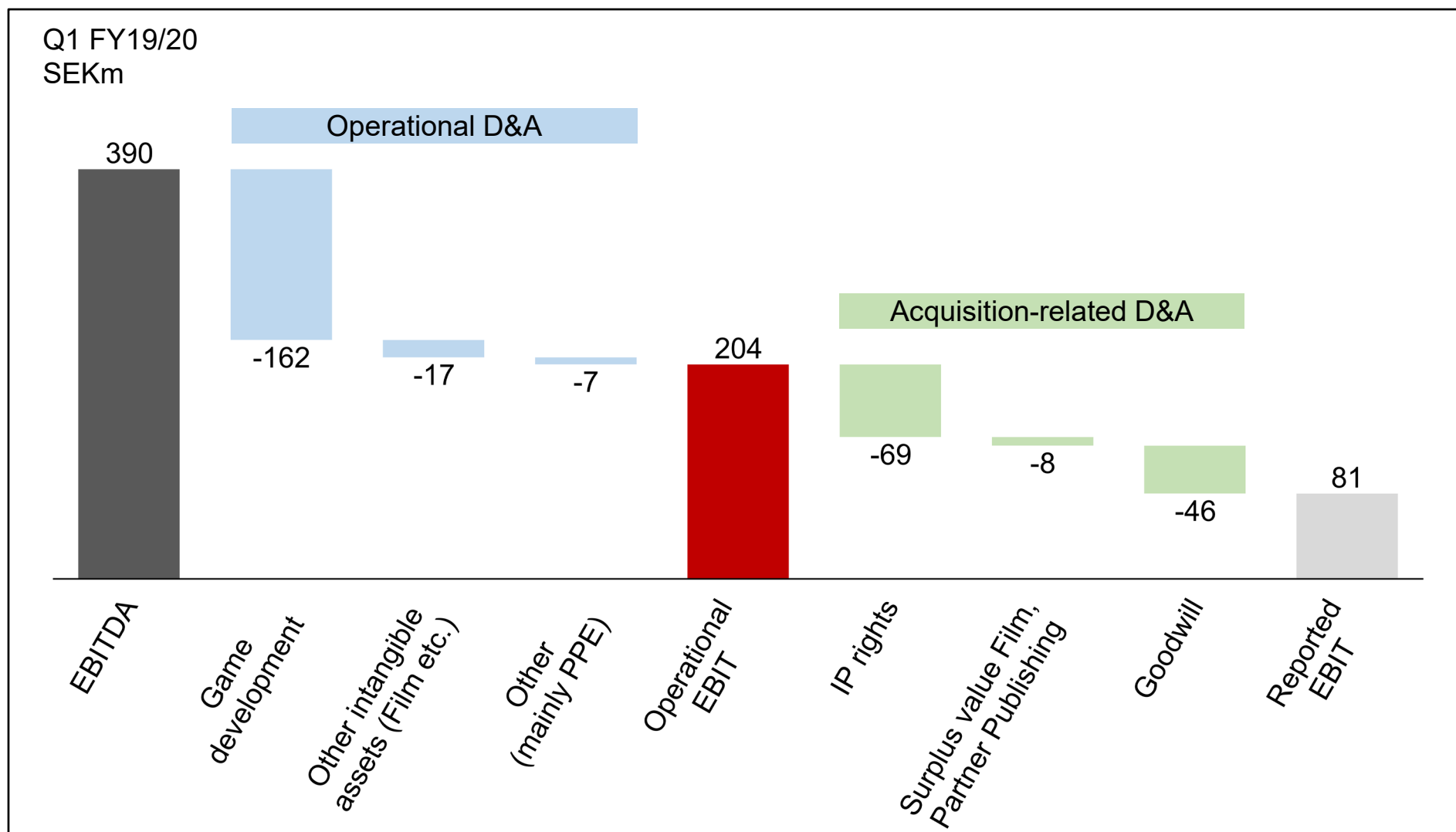
Further strengthening of the Executive Management Team:

- New Group CFO: Johan Ekström
- Prior CFO and Co-Founder Erik Stenberg promoted to deputy Group CEO

Key PnL metrics

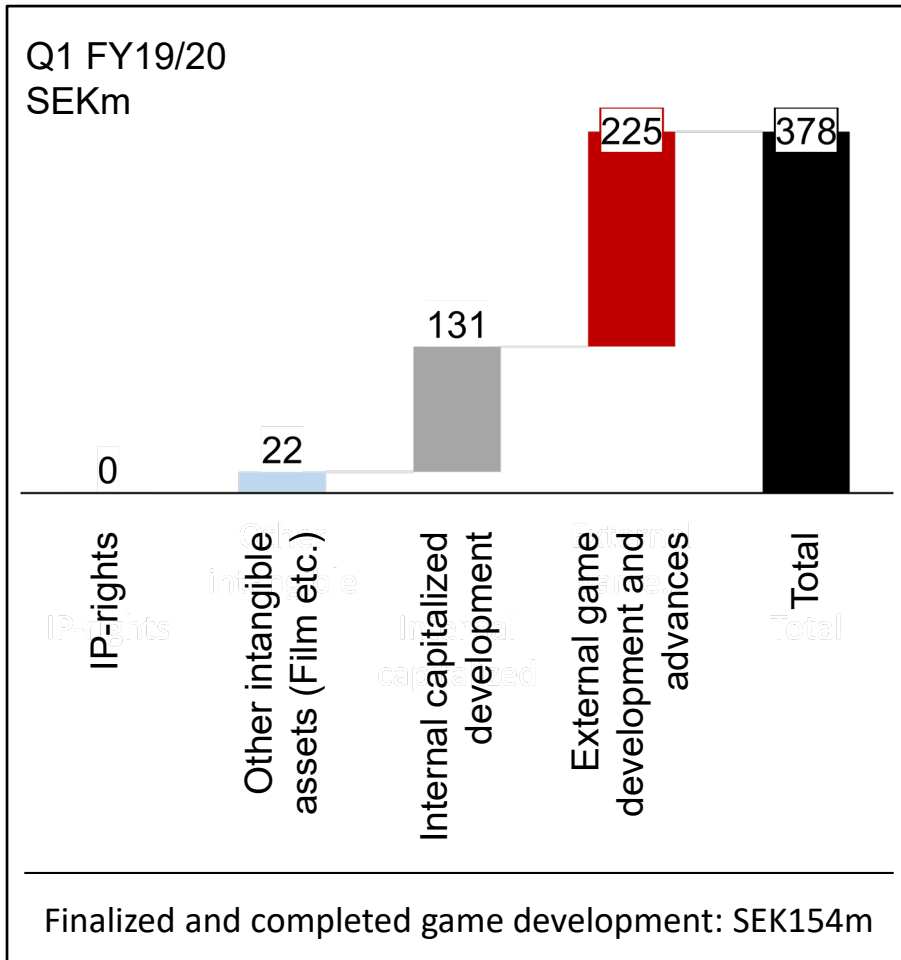
SEK million	Quarter			Trailing twelve months		
	Q1 FY19/20	Q2 2018	YoY Change	Q1 FY19/20	Q2 2018	YoY Change
	Apr–Jun 2019	Apr–Jun 2018		Jul 2018 –Jun 2019	Jul 2018 –Jun 2019	
Net sales	1,142	837	36%	5,426	1,810	200%
EBITDA	390	207	88%	1,549	624	148%
Operational EBIT	204	70	193%	900	334	169%
Operational EBIT margin	18%	8%		17%	18%	
Adj. EPS (SEK)	1.53	0.58				

Depreciation and amortization

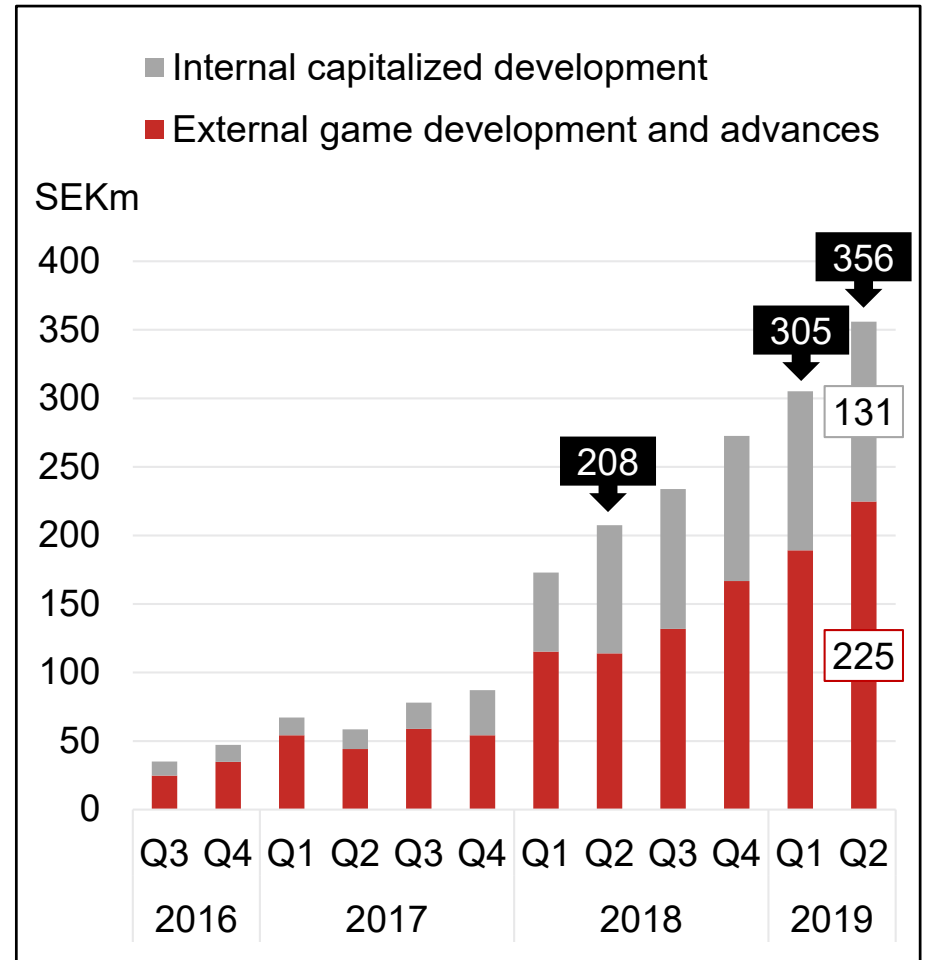


Investments

Investments in intangible assets the quarter



Investments in game development by quarter



Note: Not including investments in property, plant and equipment which was SEK 11m in the quarter

Key cash flow metrics

SEK million	Quarterly	
	Q1 FY19/20	Q2 2018
	Apr–Jun 2019	Apr–Jun 2018
Cash flow from operating activities before changes in working capital	306	137
Change in working capital	135	28
Cash flow from operating activities after changes in working capital	441	165
Cash flow from investing activities	-394	-347
Cash flow from financing activities	183	1,597
Cash flow for the period	230	1,415

- No forfeiting as at 30 June 2019. As per 31 March 2019, forfeiting amounted to SEK 51m. This reduction in forfeiting has decreased “Cash flow from operating activities after changes in working capital” correspondingly.

Balance sheet

SEK million	30 Jun 2019	31 Mar 2019	30 Jun 2018
Intangible assets	3,819	3,707	2,028
Property, plant and equipment	160	156	145
Financial assets	178	196	206
Inventories	385	323	179
Current receivables	1,373	1,297	610
Cash and bank balance	3,159	2,929	1,514
Total assets	9,074	8,608	4,683
Share capital	1	1	1
Other capital reserves	4,976	4,976	2,357
Recognized profit incl. profit for the period	801	736	422
Provisions	589	667	319
Non-current liabilities	211	211	-
Current liabilities	2,497	2,018	1,584
Total equity and liabilities	9,074	8,608	4,683
Interest-bearing receivables amount to	3,159	2,929	1,514
Interest-bearing liabilities amount to	1,110	918	450

- Intangible assets of SEK 3,819m at 30 Jun 2019 comprising:
 - Finished, completed games of SEK 427m
 - Ongoing game development projects of SEK 1,280m
 - Other intangible assets (film etc.) of SEK 163m
 - IP-rights of SEK 1,000m
 - Surplus value Film and Partner publishing of SEK 161m
 - Goodwill of SEK 787m
- As of 30 Jun 2019, cash and cash equivalents were SEK 3,159m. Available liquidity including credit facilities was SEK 4,671m

A chaotic scene of destruction. In the center, a blue alien character with large orange eyes and a menacing grin is flying through the air, holding a large cylindrical object. Above it, a blue flying saucer is visible. To the left, a yellow car is flying through the air. To the right, a white dog is also flying. In the background, a city is on fire, with buildings and a crowd of people running in panic. A skeleton is visible in the lower right corner, surrounded by flames. The overall atmosphere is one of intense action and destruction.

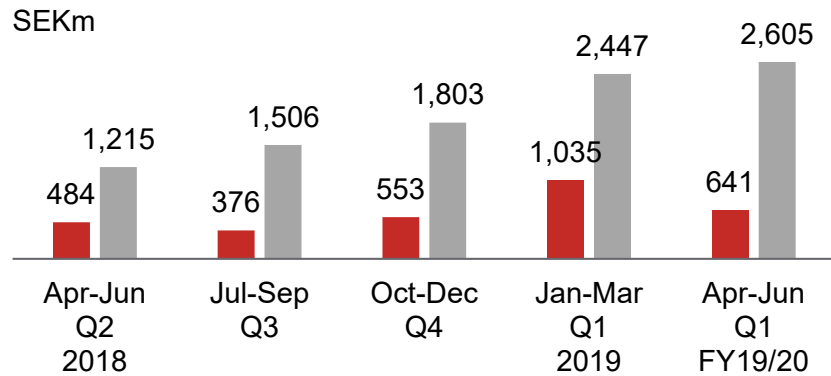
**DESTROY ALL
HUMANS!**

2. Business areas

Games – net sales breakdowns

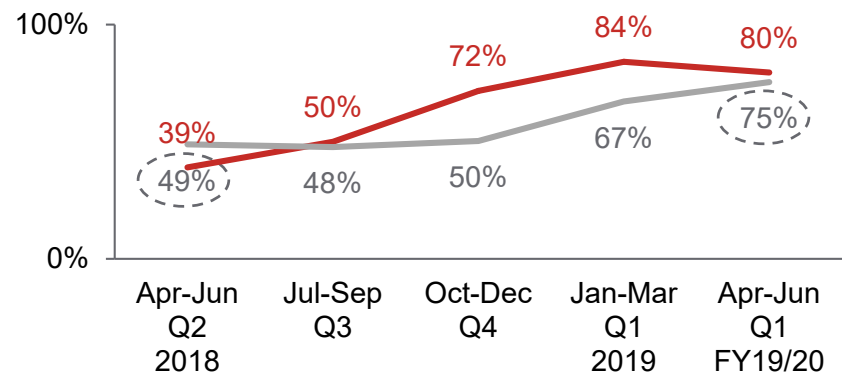
■ = Quarterly
■ = Trailing twelve months

Net sales

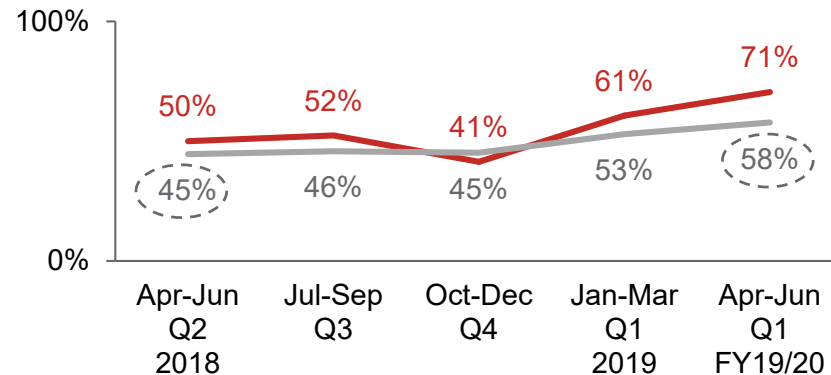


- 33% YoY growth in the quarter (quarterly)

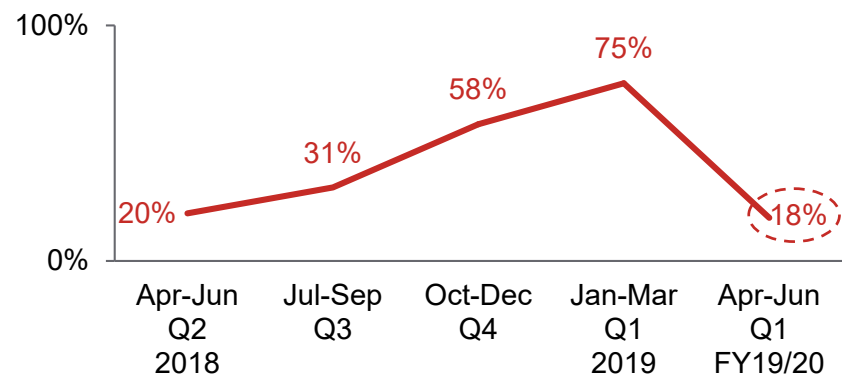
Owned titles (rest is publishing titles)



Digital (rest is physical)



New releases (rest is back catalog)



Games – Deep Silver



SEK million	2018			2019	FY
	Q2	Q3	Q4	Q1	19/20
Net sales	338	252	187	794	373

- 10% YoY growth in the quarter

Strong back catalog mainly driven by



Key releases in the quarter



Selected upcoming releases

PC PS4 XB1
IP: Own

PC PS4
IP: 3rd party

PC PS4 XB1
IP: 3rd party

New Saints Row game announced 14 Aug 2019:

TOP SECRET

volition

TOP SECRET

Additional Deep Silver development updates

- Dambuster Studios is now leading the development of Dead Island 2
- Fishlabs is working on a new IP and a number of unannounced projects
- We acquired TimeSplitters in 2018 and its co-creator Steve Ellis has joined us to help plot the future course of the IP

SEK million	2018			2019	FY 19/20
	Q2	Q3	Q4	Q1	Q1
Net sales	146	124	352	143	185

- 27% YoY growth in the quarter

Selected releases in the quarter

<p>PC PS4 XB1 IP: 3rd party</p>	<p>PC PS4 XB1 IP: Own</p>
7 releases in total	

Legendary studio acquired (including IPs)

	gothic	risen	elex
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Selected upcoming releases

<p>PC PS4 XB1 IP: Own</p>	<p>PS4 XB1 IP: Own</p>	<p>PC PS4 XB1 IP: Own</p>
Strong reception – millions of trailer views		
<p>PC PS4 XB1 IP: Own</p>	<p>PC PS4 XB1 IP: Own</p>	<p>PC PS4 XB1 Switch IP: 3rd party</p>

- Foxglove operations and assets have been sold to prior owners for a nominal amount due to lack of profitability
- License and IP deal for an unutilized midsized game title

Games – Coffee Stain



SEK million	2018			2019	FY 19/20
	Q2	Q3	Q4	Q1	Q1
Net sales	n/a	n/a	14	98	83


Strong back catalog mainly driven by



PC (Early Access)
IP: Own


- Successful promotion on Epic Games Store in the quarter
 - Released major update: Trains and Nuclear


Selected upcoming releases



SONGS OF CONQUEST

PC
IP: Own


Developers:





Announced at E3

MIDNIGHT GHOST HUNT

PC
IP: 3rd party






- No releases in the quarter
- Satisfactory has continued to exceed management’s expectations at the acquisition of Coffee Stain in Nov 2018
- During the quarter, Coffee Stain signed two unannounced investment and publishing agreements with two different Scandinavian developers

Partner Publishing

SEK million	2018			2019	FY 19/20
	Q2	Q3	Q4	Q1	Q1
Net sales	354	897	828	596	501


- 42% YoY growth in the quarter mainly attributable to earlier release of “F1 2019” versus last year (June 2019 versus August 2018)

Notable releases in the quarter




2019
THE OFFICIAL VIDEOGAME


by Codemasters



by Sega



by Sega



Solutions2GO, developed by
Saber Interactive

Selected upcoming releases in Q2 FY19/20

Dragon Quest Builders 2
by Square Enix

Final Fantasy XIV Shadowbringers
by Square Enix

Wolfenstein Cyberpilot
by Bethesda

Wolfenstein Youngblood Deluxe Edition
by Bethesda

- After the quarter: Two notable agreements signed of which one is Techland’s Dying Light 2
- Will be notably fewer releases in next quarter (Q2 FY19/20) compared to the same period last year
- While the physical market has headwinds – we see an opportunity for us to drive market share growth in this segment as publishers increasingly outsource their physical game distribution

3. M&A



M&A outlook

- M&A prospects continue to look favorable
- Ongoing, patient scouting and research activity at HQ in Sweden, THQ Nordic Vienna, Koch Media Deep Silver and Coffee Stain
- Substantial watchlist of IPs, development studios and publishers
- Strategy of giving autonomy to our local management teams is empowering them to continue succeeding and is attracting more studios and publishers to join our family

Gaya in brief

- A leading European manufacturer of gaming-IP merchandise and collectibles across all product categories, partnering with forefront running IPs and trademarks
- Founded in 2006 by Andre and Marko Schmitz who will remain with the company
- Langenfeld, Germany
- 29 FTEs
- Net sales 2018: €6m

Transaction in brief

- Acquisition price: €1 for 100% of the shares
- Gaya to be integrated in Koch Media, enhancing our Partner Publishing offering
- With synergies (such as warehouse consolidation with Koch Media) we aim for Gaya profitability in line with rest of our Partner Publishing business

Business overview

Production of merch



Brand-specific e-shops



Staffed pop-ups



Key licensors



THQ Nordic acquires Game Outlet Europe AB



GOE in brief

- An independent niche distributor of reprinted physical videogames, gaming hardware and retro-gaming hardware
- Founded in 1994 by Lars Wingefors and others
- HQ in Karlstad, Sweden
- 13 FTEs, CEO is David Nilsson
- 14% of net sales in Sweden, 75% in rest of Europe
- Net sales 2018: SEK 90m
- EBIT 2018: SEK 9.5m

Transaction in brief

- Price: SEK 10m for 100% of the shares
- 2.3x implied EV/EBIT 2018 on a cash and debt free basis
- Rationale: Stable, profitable business which enhances our Partner Publishing offering

Business overview

Video games



Key suppliers



Retro



Accessories



THQ Nordic acquires KSM GmbH



KSM in brief

- A leading anime film provider in Germany
- Acquired assets mainly consists of a large film-rights catalog of more than 1,000 movies for both digital and physical distribution
- Founded in 2002 by current CEO Benjamin Krause
- HQ in Wiesbaden, Germany
- 45 employees
- Net sales 2018: €17.5m
- EBIT 2018: €1.9m

Transaction in brief

- Acquiring 100% of the shares from founder and CEO Benjamin Krause
- Purchase price expected to be recouped within 3–4 years on a net cash flow basis
- KSM to be integrated into our Koch Media Partner Publishing business
- Anime film is linked to gaming and thus fits well with our Partner Publishing offering
- Before the transaction, management made a strategic review of the Group's film business and concluded that a critical mass was needed in the film business to stay relevant and improve return on capital employed



