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# EDITED TRANSCRIPT

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## PRESENTATION

### Operator

Welcome to the Stillfront webcasted teleconference. (Operator Instructions). Today, I'm pleased to present CEO, Jörgen Lashan. Please begin.

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### Jörgen Larsson - Stillfront Group AB (publ) - CEO & President

Thank you very much, and welcome to this presentation of our recent acquisition. So it's me today and also Andreas Uddman, CFO; and Marina Andersson, Head of M&A here this morning.

We'll start with -- we can go to Slide 3. We are really happy that we today have been able to announce 2 acquisitions of 2 leading game developers, Super Free Games and Sandbox Interactive, 2 high-quality studios that will contribute significant and for many years to come towards our vision to be a leading free-to-play powerhouse. And I will go through Slide 3 overview of these 2 studios as well as the transaction and the financials that we see and expect going forward. Going to Slide 4 to start with Super Free Games. We go to Slide 5 to see Super Free at a glance. It was founded 2011 in San Francisco, and it has also an office in Singapore and additional people working remotely in several parts of the world. It's a rapid growing developer of leading casual games, including successful titles like Word Collect, Word Nut and Trivia Star. The guys have successfully shown a strong effort in pivoting from Social Casino to Casual games during 2017 and finalized in '19 in a very impressive way, in our view, and we are really -- we like when management teams and teams, the development teams have managed both to gear success as well as handling challenges and benefit from that and improve their market position, and that is exactly what Super Free have done in a very, very impressive way and achieved strong growth, as we will look into in a few minutes.

They have a very strong culture, a team building culture with -- consisting of 80 mobile gaming experts; professionals, developers, designers, very strong in UA/monetization way, and that have achieved the results that we will look into. They have a track record of the first 9 months this year, revenues of USD 57.6 million in net revenues with an adjusted EBITDA of USD 8.7 million. In terms of traffic, their end users, they have had MAUs amounting to 8 million in September and DAUs of 1.4 million.

Looking at next slide, Slide 6, you can see the time line here. As mentioned, they were founded in 2011, first game out in 2012 and had a strong start. And then being into Social Casino, '16, and then they started to pivot in '17 and in a very, as I said, impressive way, achieving results and a very good growth trajectory from '18, '19 and up until today, and we expect will continue for several years to come, for reasons that I will come back to in a few minutes.

If we look into Slide 7, so the Casual Games are now amounting to approximately 80%, fastly growing in -- of their total revenues. The main titles Word Collect, Trivia Star and Word Nut currently have very, very strong KPIS, not the least retention numbers, which we find especially interesting and important because as we have a strategy of focusing on long life cycle games and to build user bases with loyal users, usually that could be

not so easy to achieve in these kind of games, but we have seen really, really strong numbers. And that has been 1 of several key factors for us to be a very attractive impact by what Super Free have achieved so far. And this is important and worth emphasizing.

Looking at Word Collect, which is currently the strongest product, 800,000 daily uniques. There is in this product approximately, depending slightly on season, but it's a good balance between in-app purchases and ad revenues. Usually in Q4, it's higher, especially in December and now as we speak, whereas in Q1 it's usually a bit lower the ad revenues, but they have a good balance and have a very strong capability of improving and balancing this constantly. So they have the monetization skills and experiences to have a significant portion of in-app purchases in balance with a professional way of generating ad revenues. Also very important is that they have a strong pipeline, several games in soft launch and more than 5 titles in the pipeline. So that it's not only that we hope and expect that the existing games will continue to be strong and grow into '21 and onwards, they also have new titles coming up. And it's also exciting to see that it includes Puzzles but also Mash-up games and new Word games. So they are as a stand-alone studio broadening their portfolio within their area, but also that fits very, very well into the Stillfront Group overall positioning and the kind of products that we will like to add to have the strong diversification that we always try to improve and excel in from a group perspective.

On the right side, on Slide 7, you can see some of the things which are both important for their success, but also important looking forward, that they have built games in a way that we have had as a core strategy at Stillfront for many, many years, namely that will build engines. And that we're not only talking about using game production engines like Unity and so on, but they have built their complete product in a good architecture so that they can in a very impressively rapid way, prototype new games and produce new games to really have this strong pipeline and fuel for further growth. So that is 1 part that they have been really strong and have built a significant value on the engine level, not only the instances of the games like Word Collect and Trivia Star, but also the engine level, which looks very encouraging for growth for many years. Also they have built a -- and have a state-of-the-art analytics platform, which is absolutely key to be very agile and fast-moving when it comes to improve the user experience and to optimize constantly, in a data-driven and professional way, KPIs, where it gives the best effect for the operational business. So both how they develop and prototyping and improve games, technically-wise through the engine, and also how they're monitoring and improve the operational and the [liveups] of the games and the business through their analytics platform. These are 2 things which is requiring the kind of experience that Super Free have in their teams. So very promising and just the way that we would like things to be run and operated.

Looking into next slide, Slide 8. Some words about the transaction rationale. First of all, we continue to broaden our stronger footprint and the audience that we can address. We also, in this case, increases the ad monetization expertise. Both of these elements are in the core of our M&A strategy. We have a very clear view of what white spots we should try to acquire into the total setup and content that we have in the Stillfront Group. And we're not only talking about 2021, we're talking about our business target and the business view we have on how we should be constituted to be successful 2025 and onwards for many years. And what Super Free and also Sandbox, which I'll come to in a minute, adds, fits into that target that we have. And that the wanted position that we have clearly described for ourselves that acts as the filter on which we look on potential further acquisitions. So it has a run rate of approximately USD 100 million. So [already you] can see there's a rapid growth, both looking at the first 9 months compared to the run rate, but also where we guide, which we will come to in a few minutes. And again, besides that they add game genres that we don't have today, they also add an audience that not necessarily view themselves as gamers. They are potentially viewing themselves as non-gamers, but they are gamers in the sense that they consume these games. And that is also very important for us, because it adds volume and it adds category of gaming consumers that we not have so much of today, but we need that in order to be very competitive for many years to come. And as mentioned, ad monetization expertise is very valuable. And again, the platform supporting that and leveraging the knowledge they have built in a very impressive way, so they can act data-driven and they can scale their business in a very professional way. And again, the pipeline that I mentioned is also very important for us to see that we add into the blend of the group's diversified portfolio today and tomorrow.

Looking at the collaboration opportunities and synergies and scaling opportunities, they are multiple and in several dimensions. Of course, we see opportunities to leverage that we in Stillfront have a very strong geographical presence globally. And have a larger footprint than Super Free has stand-alone, that constitutes a collaboration and synergy potential. Again, the existing pipeline of Super Free, we think could be further enhanced and we can add the collective knowledge from the whole group of Stillfront into these particular launch and scaling up and publishing opportunities that we have at hand. Strong KPIs, where we also can add and use the collective knowledge from several of our existing studios to further improve the performance in mutual direction, of course. And also, not the least, just the fact that we add a significant amount of users monthly actives is a

strong cross-selling opportunity for us, so that we are taking steps towards having a substantial combination on a number of games and amount of -- large amount of unique users so that we increase the value of the Stillfront ecosystem for every day that we continue towards our vision.

Going into Slide 9, Sandbox Interactive. On Slide 10, we have some facts about Sandbox, founded 2012 in Berlin. And rapidly growing within the very exciting and hard to get established area free-to-play MMORPG, and they have a cross-platform position there which we think is very, very interesting and strategically appealing, because we think, as we have communicated many times, that cross platform and convergence is a very interesting business opportunity. So we think that Sandbox has a very impressive thinking architecturing their position today, but even more as we see tomorrow, 2021 and for many years to come. So we think that we joined that, but we can make that create even larger values. The product that they have is called Albion Online, which is a Sandbox MMORPG, set in a medieval fantasy world, in a very -- with a very impressive depth and complexity in the games. And it's developed and iterated it for many years to really be of the volume and the complexity needed in this area and which makes it very hard to get into this market. But also, as you see in both from Sandbox and other peers in this area that MMORPG games could really show tremendous performance for very long time, and they have a very stable performance that is very hard to see in, I would say, very few other areas that can compete with that. So that is something which we really put a high value into this opportunity. And also, they have, as mentioned, they have cross-platform thinking already from the start, even though that the mobile version will really take off and be officially released in the first half of next year. But nevertheless, it's built from the beginning with that ambition. Approximately 50 employees in Berlin, all of them. When it comes to traffic numbers, 600 monthly uniques with 120,000 daily uniques, EUR 9.5 million revenues the first 9 months with EUR 5.2 million adjusted EBITDA, very strong margins. And I would like to also highlight the revenue retention that they show, which is a tremendous -- 1 of many tremendous KPIs, supporting their idea of the stickiness and the strength and the loyalty you can create if you have a high-quality game. So 96% of the paying revenues from the general cohort are still intact to 96% in September. That's a very, very strong number.

Going to Slide 11. Again, a very high production value product, both in its complexity and its depth and also the digital quality, which you can see something, an example on the screen shot here [but it's] throughout the game, it's a very impressive, high-quality production. And it's also coming from the enthusiasts and industry veterans that really likes this area of the gaming. So I think that, that is 1 of the explanations, that the founders have an impressive track record and knowledge about the MMORPG area. And also, which is, without going into all details, it's quite a few of the existing MMORPG large franchises out there that have as modern touch and feel and feature set and that Sandbox and Albion are representing. So we think that is something we expect is super exciting looking forward several years, and also with the cross-platform opportunities since it's built from the beginning. So it will not only be a presence in the mobile channel, it will be a true cross-platform experience. And we know from Stillfront what that could bring to complex gameplay since we have several games already proving significantly improved engagement KPIs when you go cross-platform. So we think that, that will bring some further value to this really strong position already. And also it's a very sophisticated game economy design that they have done. Without going into details, that is something that stands out of several things. An also, I think it's very healthy to see and encouraging to see how they have bootstrapped the business and [keep] in collaboration with the community built their current position, including crowdfunding. So very impressing entrepreneurship from the guys at Sandbox Interactive.

Looking at next slide, Slide 12. Transaction rationale here, we see again, very hard to get into converging -- the converging part of the market, but also the MMORPG. It's very high moat, extremely high moat area. So we are happy to get in not only a studio, but a very, very high-quality studio in our family. And again, its strong free-to-play and premium presence in Windows, macOS and Linux and an impressive way of engineering how they engage with the players in many different channels and many different ways, which is a key element in MMORPG especially. And as mentioned, a cross-platform free-to-play design from the beginning, which is again, future-proof, we think. And also here, we see some scaling potential with the -- with now Sandbox being part of the group. Obviously, through the mobile version being officially launched in the first half of next year. And then with expertise, the collective knowledge in Stillfront, we think everything else the same, that product will develop stronger with the support of the other studios within the group. And also within marketing and distribution, of course, not only product related, mobile, and also we can see that we have a -- again, the reach that we have in Stillfront Group would benefit both with market knowledge and proximity, but also with the localization expertise and the benefits that we have gotten already will, of course, also be available for Albion Online going forward. And again, which I also mentioned on Super Free, this is built on an engine and proprietary technology in a very impressive way indeed. So before going into financials, I would like to, Marina, if you could add some flavor to the processes here and what we -- how we have reasoning and viewed these opportunities and executed with you in the lead. Please, Marina.

**Marina Andersson** - Stillfront Group AB (publ) - Head of M&A

Thank you Jörgen. We are very proud of our strong M&A pipeline. As always, we've been very selective in our approach. As already mentioned by Jörgen, our M&A strategy is highly focused on diversification and filling in right what that we identified in our portfolio from general perspective, from audience perspective, from platform perspective. So from this point of view, both Super Free and Sandbox make very strong strategic fit and rationale. So we've been following both companies quite for a while, which we always do in our M&A processes. With Super Free, we've been following them actually since summer 2019 already. And Sandbox we know well by definition, because they are closely located to our strong German hub.

So we really do see that those 2 new family members fit very well in this M&A strategy and in our highly selective approach because those are really top picks really very well fit family members for Stillfront Group. And also very important as always there, not only do we evaluate strategic fit from the point of view of platform, quality of games, genre, products and audience, but also with cultural fit, and through following those 2 companies through months, we could really feel that it will make very strong cultural fit with Stillfront. So we are very happy to welcome those 2 studios, and we are prepared also to look forward to collaborations with them and, of course, to continue our strong M&A growth with this selective approach.

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**Jörgen Larsson** - Stillfront Group AB (publ) - CEO & President

Thank you, Marina. So going into Slide 13. We will now look at some financial highlights and also summarize this presentation.

So going to Slide 14. The transaction structure, when it comes to Super Free, there is an upfront consideration of USD 150 million on a cash and debt-free basis, whereof USD 71 will be a cash consideration, and the remaining USD 79 will be share consideration. There is an earn-out structure with an EBITDA multiple of 0x to 2x for '21 to '23. And the earn-out consideration that we expect will come out from this will be paid in 47.5% cash and the remaining in new -- at that point, newly issued shares for the years, respectively. Sandbox is quite similar, but also some differences. It's an upfront consideration of EUR 130 million on a cash and debt-free basis, where cash consideration will be approximately EUR 100 million and share consideration approximately EUR 30 million. And the earn-out structure here is that it's 1x EBIT for '21 to '24, whereof approximately 78% will be in cash and the remaining 22% in newly issued shares at each of the years -- issued at each of the years.

Looking at financing. The total upfront consideration is then in SEK approximately SEK 1.3 billion, each of them, whereof SEK 0.6 billion and SEK 1.0 billion, in fact, respectively, are in cash. And the cash components will be financed with available cash and the credit facilities that we already have. And also important to mention that post the acquisitions of Super Free and Sandbox, the leverage ratio will be within our financial targets. So it will be approximately 1.4x EBITDA and that is based upon year-to-date Q3 numbers, so it's not the run rate or, of course, not 2021. So we think we have some headroom also after these acquisitions to be active with our current financial capacity. And also for them, as a consequence, for the share consideration, it will be issued 1,087,727 shares to the sellers based upon a 10-day VWAP. And all of this represents a dilution of 3.04%.

Looking at the next slide, Slide 15, the pro forma income statement year-to-date Q3. And you see in the first column that as reported, the Stillfront numbers for Q3, and there we have consequently added Super Free and Sandbox, which makes a total Q3 pro forma, including Super Free and Sandbox of SEK 3.55 billion, with a 34% adjusted EBIT margin. So we can see that we increased our net revenues on year-to-date Q3 by SEK 640 million, which is equal to 22%. And we do that with the 3% dilution I just mentioned. And then we -- what again couldn't be emphasized enough, is the diversification that we had towards -- which fits very well towards our vision of how we should look as a group in 2025. So new games and new genres, ad revenues are stronger and more cross-platform. And also, as previously mentioned, we add significant components into our pipeline and also existing games, but also the pipeline is not -- should not be forgotten. So we think that these, both the existing game and the pipeline, significantly strengthen our growth momentum going into 2021.

So that is all good. And it could also be mentioned that, as you can see that mid or short-term and especially looking back to the first 9 months, of course, the margins will be lower. So it has an impact. But of course, that is the natural flip side of having very, very high growth, is that the margins is then during that very high growth, typically lower as you spend more on user acquisition. And hence, consequently, when you lower the growth pace, the margins increases again.

Going into Slide 16, where we give a guidance looking forward. So Super Free and Sandbox combined full year, we expect that they will contribute with net revenues between SEK 1.5 billion and SEK 2 billion and an adjusted EBITDA between SEK 350 million and SEK 450 million. So it's significant contributions. And also could be mentioned that these numbers are as if they were consolidated from the 1st of January, which we don't expect for both of them. We expected 1st January and 1st February, respectively, but the guidance is for full year of both of them. But it's -- 1 month will not probably be there. And this is also constituting the upfront enterprise value to adjusted EBITDA multiple of 6.5x, which we think is a very attractive multiple considering the high quality of these company, considering the high quality of how they operate and the teams that are running the businesses, most of them, and also not the least, the growth that they come in with and contribute to the group's growth. We are extremely happy to see that we can do a value-additive, sound acquisition financially-wise as well. And of course, what this also adds, we're always looking at the long-term value-add and the industrial and financial value that it will bring to Stillfront looking forward. And of course, this has a significant contribution towards our financial targets that were communicated in September.

And also shown on next slide, Slide 17. They significantly contribute to our growth, net revenue target by 2023 of reaching SEK 10 billion in revenues, with a profitability of 35% adjusted EBIT margin and a leverage ratio not exceeding more than 1.5x. As you have heard me describing, we take a significant step towards these financial goals, but even more importantly, is that it adds to our vision to be a -- 1 of the absolute leading free-to-play powerhouses going forward, and what kind of genre and audience footprint we would have -- would like to have and diversified revenue streams by 2025 and onwards.

Finally, to summarize, we are building the leading free-to-play powerhouse, and we're further strengthening for every acquisition that we do, since we look very much into the target, how we should look like and how -- what kind of revenue streams and audiences and footprints we should have by 2025, we take step by step by step towards that mission in a very good way, I think, not the least through Marina and the team's hard work and Andreas and his team on the financing side. We are now 18 studios. So we have made 6 acquisitions in 2020, we have a strong pipeline going forward, and we hope to think that we will be able to do more exciting things in 2021. And we have more than 2 billion, clearly more than 2 billion at this point, users that are playing our games, our diversified portfolio as we are constantly growing that 1 as well.

So we are really, really happy to announce these acquisitions to rapidly grow and are profitable games studios with really, really high-quality, professional brand and operated by strong experienced people. Further platform as shown in diversification and again, a strong pipeline for our business going forward, both organically as well as through further M&A activities.

So with that, I will hand over to open up for questions. And again, we are 3 here to answer your questions. Please go ahead.

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## QUESTIONS AND ANSWERS

### Operator

(Operator Instructions)

Our first question comes from the line of Oscar Erixon from Carnegie.

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**Oscar Erixon** - *Carnegie Investment Bank AB, Research Division - Financial Analyst*

Jørgen, and Andreas. A couple of questions from me. Starting with -- if you could talk a little bit about the sort of annualized run rate for Super Free and Sandbox, respectively, in Q3 and perhaps also in October and November, just to get a sense for the growth during the year because I expect it to be higher than Q1 to Q3 year-to-date? And also if you could discuss sort of if you expect similar growth rates in 2021 for the 2 companies, would be helpful.

**Jörgen Larsson** - Stillfront Group AB (publ) - CEO & President

Thank you, Oscar. So yes. As mentioned, just to take that a very clear example that we have a run rate, which we just disclosed here of Super Free being approximately the USD 100 million in run rate. So you can clearly see that they are continuing the growth into December and we are convinced that we will see a strong growth going forward. And it's slightly different, how we will see this growth coming for the next year and the next years between Sandbox and Super Free, so we think that Super Free has a very strong momentum as we speak. Both companies have that, but they have the pipeline of the 5-plus games coming out and the existing games, which are definitely not -- it's early in the growth trajectory. So we think that they can continue with what they're already doing very well. Whereas it's more an add-on thing in Sandbox that is super exciting, but also the existing product and the existing way of distributing Albion in online, we think will continue, but it will -- there is, of course, a very strong trigger in the fact that it's the full official launch of the mobile version comes quite soon here. So I think that we can say that we are comfortable looking at the current performance, the run rates of these businesses looking into the SEK 1.50 to SEK 2 billion revenue guidance that we have given with a quite decent margin and EBITDA contribution. So that is what I can say on that. So it is on a good way towards the levels that we need to be run rate-wise 2024 already.

**Oscar Erixon** - Carnegie Investment Bank AB, Research Division - Financial Analyst

Great. And what are sort of the key things that you would point out that these acquisitions add in terms of synergies, know-how, et cetera?

**Jörgen Larsson** - Stillfront Group AB (publ) - CEO & President

As I have elaborated on, it adds -- I mean, we -- as also Marina pointed out, we have a very clear view on how we should look in 2025. So we have a list of things that we think we should add to the -- what Stillfront is today or yesterday or have been this year. We have started already in January by the Storm8 acquisitions to step-by-step add different genres and subgenres and audiences that we think we should have within our group looking at 2025. And I think that what is both these opportunities really clearly shows how strong they are in their niches. So Super Free with the Trivia and the Word games, which is an area that we know about quite well, but we don't have a, currently a strong portfolio before Sandbox comes in and -- I mean, the numbers are -- and the growth is speaking for itself. So I think that they are absolutely leading, but it's very important for us that they have the strong KPIs of retention, that is super important for us when we look at companies within this area as well as they build things on an engine because that provides you with not only having a few new games, but also that we could drive new games into our -- through the pipeline into being launched for many years to come. So that is 2 strong areas and looking into Sandbox we have been looking for quite some -- quite a couple of years, many years, several years, I can say, in how we can establish ourselves within MMORPG. It's extremely high moats. And extremely stable revenues with a 96% revenue retention that I mentioned just as an example of that, and we think it's an impressive architecture design that they've done. So I think that, that is quite unique, and it's very hard to get established there, I would say more or less impossible to do organically. And here, we get a category leader, not the largest 1 yet, but in quality [and] cross-platform and how they have built this high-quality Albion Online product. So I mean, it adds different but same -- it's a similar rationales, but in different areas.

**Oscar Erixon** - Carnegie Investment Bank AB, Research Division - Financial Analyst

Perfect. And then a question I have to ask regarding Apple's IDFA changes coming out in early 2021. And I think you've discussed it before, that it should have probably the most immediate impact on advertising costs and advertising revenue. So given Super Free Games [quite] I mean 50-50 split between advertising and [in out] purchases, have you incorporated the negative impact from IDFA changes in 2021 into your guidance?

**Jörgen Larsson** - Stillfront Group AB (publ) - CEO & President

So yes, we have worked with several scenarios. We have -- I shouldn't go into all of them. Our only view on IDFA, because it's an extensive area, we have elaborated on that in our earnings calls a couple of times now. But of course, we have considered and factored in what we expect will happen. And as you point out, we think that it will have an impact on [fee income]. So that means that ad revenues goes down on the 1 hand. On the other hand, if that happens, it's also good for marketing, especially on the same area of games. But also, in this case, we think that Super Free has shown an impressive way of monetize in [impact] purchases. They know how to do it, and they will be even better in how to do that as they can draw on



the collective knowledge from the group. So yes, we have factored in that in our expectations and the guidance for next year. And we have a clear view on how we should handle that and we think we are in a quite good shape for doing so. But if you look at individual revenue streams, they will differ and be impacted. Let's see how it plays out exactly because it -- yes, it's many factors coming in.

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**Operator**

And the next question comes from the line of Jesper Birch-Jensen from ABG.

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**Jesper Birch-Jensen** - ABG Sundal Collier Holding ASA, Research Division - Research Analyst

Jörgen. And congrats on the acquisitions this morning. A couple of questions for me. First off, I was just wondering in terms of your 2021 guidance, Sandbox and Super Free, obviously it's quite much higher than 2021. And I was just wondering if you could dive into the drivers more specifically? I mean, you touched upon the pipelines for each company. But with potentially tough comps from 2020, how will you reach [the com estimates for next year]?

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**Jörgen Larsson** - Stillfront Group AB (publ) - CEO & President

Yes. I mean it's several drivers. I've touched upon them, but worth emphasizing. We see very strong growth opportunity. And it's not only based upon some wishing, it's based upon what they are doing currently at both of these studios. So they have proven that they can really leverage when they get traction in the market, slightly different ways because it's different parts of the market. But that is the beauty as well because we have both Super Free and Sandbox, so we get different growth -- way of achieving the growth, even though they are, of course, similar also in some ways, but they are in different areas. So Super Free continue to, in a very professional, systematic and data-driven way, scale up their gains through strong -- very strong analytics and UA capabilities. We think we can do more on that side, which is not -- we have not added synergies into the numbers here, but we think that they definitely exist. But even though we would surprisingly not achieve any synergies, we think that they [are integral] because they have very, very strong traction gaining up their existing games. And then, of course, with new games, it's harder to say, but we think that the quality of their engine producing and make it possible to rapidly prototype gains is what we need to do in that part of the industry. Which is opposite to Sandbox, where you build massive content over a long time and very complex gameplay and Sandbox have done that in a very impressive way. And as Marina pointed out, we have followed both these companies for quite some -- quite several years basically, quite close. So we have followed it and been over and over impressed with what they have done. So -- but in Sandbox, of course, there is, as I mentioned, the -- besides their operational development of the business with an extreme strong revenue and paying user retention. So they're just adding cohorts on top of each other, quite similar to our strategy, part of our strategy, the second portfolio that we have in Stillfront. Of course, there is another trigger with going cross-platform that we have seen in our grand strategy portfolio, what that would bring to retention and engagement rather, and hence, also revenue development. So we think there are several growth triggers besides that they already are in a growth trajectory, both studios executing operational -- showing operational excellence, basically. So they're already growing by high numbers, and we're adding a number of growth triggers on top of that, but -- so yes, we are as comfortable as you could be with our growth guidance.

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**Jesper Birch-Jensen** - ABG Sundal Collier Holding ASA, Research Division - Research Analyst

And my second question is in regards to Super Free. I was wondering if you could touch upon how the growth for the first 9 months of 2020 looks compared to 2019? And also, how much are they spending on user acquisition? I mean where do you think market could stabilize if they were to adjust these acquisitions to normalized levels?

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**Jörgen Larsson** - Stillfront Group AB (publ) - CEO & President

They have been growing incredibly strong. But obviously, since they pivoted between '17 and '19, the growth number, percentage-wise, are really, really super high, but I think the value of looking back further is not so high. So what we're looking at is, of course, the full year, but not the least, how the current momentum. And when you dig into analyzing data on user behavior, you can see quite well if you know what to compare to, if



you have a lot of related data. We can see that this momentum mix is very, very strong. So of course, it's -- in Super Free, it's closely related to UA. So they have put and have taken the correct decision to put in significant amounts in user acquisition. Besides that, they are a cost-effective and well-run operational-wise studio. So that clearly indicates that if they would have chosen not to grow with the very high numbers that we indicate -- I mean, we are indicating 100% growth there organically -- then of course, the margins will be much higher. So I mean, we are several [tens] of percent higher it could be, but we think they shouldn't grasp that short-term improved margins. It's much more wise to continue the way that they've done, namely to grow as long as they can grow with high profitability and good return on marketing spend, that is what you should do. If that continues 1, 2, 3, 4, 5 or whatever years, we don't know at this point. But when they slow down, margins increases since you don't spend [UA] up to the same extent. So it works the way it should do, and they run it the way you should do.

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**Jesper Birch-Jensen** - ABG Sundal Collier Holding ASA, Research Division - Research Analyst

And just 1 more last question here on Sandbox. I was just wondering, Albion Online on PC platforms is that more of a stable cash flow generating game, and the expected growth is mainly from the mobile version to be released next year? Is that how your reasoning, or is the game still growing solidly on [all the] platforms?

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**Jörgen Larsson** - Stillfront Group AB (publ) - CEO & President

It's growing solidly. I mean the growth that they have been showing and is showing is -- they don't have significant volumes on mobile yet. So of course, that is -- we see it as a growth product unregarding the mobile launch. But of course, the mobile full official launch will be a catalyst for improving the growth further. They did not so much, they can grow significant already with the existing Albion Online and the strength of that product. But we think looking into 2022, 2023 and onwards, the mobile we expect will be a catalyst for long-term strong growth. And of course, the convergence here is very exciting for us to be strengthen ourselves in, to be true cross-platform, which we think will be something that we should master, not necessarily in 2021, but 2022, 2023 and onwards. And we think, in our view, that, that is something that any successful gaming company needs to master.

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**Operator**

And the next question comes from the line of Hjalmar Ahlberg from Kepler Cheuvreux.

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**Hjalmar Ahlberg** - Kepler Cheuvreux, Research Division - Equity Research Analyst

Maybe a first question on Super Free Games on this Word Games and Trivia games? Is that a tough competition area? And what sticks out to the games that Super Free [have there]?

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**Jörgen Larsson** - Stillfront Group AB (publ) - CEO & President

Sorry, can you repeat that? I didn't hear last part.

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**Hjalmar Ahlberg** - Kepler Cheuvreux, Research Division - Equity Research Analyst

Yes. Competition in the Word Trivia games and what is Super Free's edge in this segment?

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**Jörgen Larsson** - Stillfront Group AB (publ) - CEO & President

I mean, at a glance, you could say that. And in some sense, it's -- you can say it's higher competition, but it's not -- it's more complicated and complex than that. So if you look at the way that they have found a recipe and a combination of how the product works in the market and how they have

been able to refine their recipe of how to tackle this area, you can clearly see that they have an exceptional traction, and have for quite some time. And the key thing here is that they have built that into the engine. So that's why we talk also, besides the strong growth of the existing free largest game of Super Free, we think that there's a model [franchise] that new -- 1 of the new games next year and for the next coming several years, will add to that growth. So I mean, if it would have been so simple to say that this recipe in this segment will work and this recipe will not work, all of us would have [the best and] large products, it's not that simple. You need to iterate in a rapid way, AB test, so many things, graphics, interaction with the players, features, live ops, and then refine and refine and refine constantly. And they do that in a very rapid way from building development of the product up until how they operate and how they market the product. And I think that is more hard work, being professionalized, discipline, and having the data [there] how to gear it rather than it's some kind of magic, but they clearly have found a recipe, which is -- trust me, we have really dig into data which showed an impressive retention that is -- we have looked into many word games, and they stand out achieving that. But saying that it's exactly that or that feature is not viable reasoning, I would say. So we are optimistic that they will continue to be competitive for many years. But also they have improved that opportunity to be competitive because they will become part of the group. So the collective knowledge of how you build an even stronger position, increase the chances for them to be competitive from 2025 onwards as well. There is unfortunately not more clear answer than that, but that is how it works, I think.

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**Hjalmar Ahlberg** - Kepler Cheuvreux, Research Division - Equity Research Analyst

And on Albion, I mean you mentioned a high retention rate. And then I just looked at the game, it looks like they have this monthly subscription. Can you say anything on the revenue mix there? Is it a lot of monthly recurring subscription? Or is it other in-app or in-game acquisition parts as well in the revenue mix there?

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**Jörgen Larsson** - Stillfront Group AB (publ) - CEO & President

Yes. It's a mix. We don't have -- we don't communicate the exact blend here. But I think also it's important to understand, especially now as we entered into a mobile version as well, that there is nothing that we decide and then you lean backwards and hope to collect some strong revenues. That is also something that we constantly are refining. And we have done so and spoke about that in earnings calls several times, that we also in other product areas and in other product is different. We are working with trying to optimize the blend between subscriptions and in-app purchases. And also now we add ad revenues, which we haven't been very strong at, but we have a strategic -- a strong initiative to strengthen that, which we obviously do also through Super Free being part of the group and the previous acquisitions as well. So it's not a fixed thing. It's something that you constantly optimize to achieve the stability and predictability that we always are looking at, compared with a diversification of revenues.

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**Hjalmar Ahlberg** - Kepler Cheuvreux, Research Division - Equity Research Analyst

Yes. And just on the currency, have you based your forecasts on Stillfront on currency euro USD rates, or any in the -- [inter other]?

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**Jörgen Larsson** - Stillfront Group AB (publ) - CEO & President

Andreas, could you comment on the FX part, please?

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**Andreas Uddman** - Stillfront Group AB (publ) - CFO

Yes, we have based our -- the forecast is based, as noted in the presentation, on the closing rate on the 30th November, and that's also reflected in the purchase price conversioning into SEK.

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**Hjalmar Ahlberg** - Kepler Cheuvreux, Research Division - Equity Research Analyst

Got it. That's good. And a question on earn-out, you didn't specify this, but is there any max amount on this?

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**Jörgen Larsson** - Stillfront Group AB (publ) - CEO & President

We have a -- there are caps, but we, for commercial reasons, have agreed with the counterparty or the other parties not to communicate that externally for several reasons.

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**Hjalmar Ahlberg** - Kepler Cheuvreux, Research Division - Equity Research Analyst

Okay. And maybe just the last 1 on COVID-19, I mean, based on your games, you saw a good uptick in Q2 and a similar behavior on the [cores] that you talked during Q2. What do you see in Super Free and Sandbox? Is there any COVID-19 boost there that could have a negative impact, or anything to add there?

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**Jörgen Larsson** - Stillfront Group AB (publ) - CEO & President

Yes. So in -- to be honest, I would have expected the larger Q2 effect in Super Free, but they have been showing very strong momentum from Q2 to the run rate now in December. So I would have expected to say that, that was more clear, but they have shown that their product and how they operate and market their product has -- they've found something which works extremely strong after that as well. So then I think that, having said that, every gaming company had higher activity in Q2 than compared to other quarters. But [just as] we have communicated on the existing prior to Sandbox and Super Free portfolio of Stillfront, it was an effect primarily on marketing, not so much in general terms on spending per user and so on. That was a few percentage, so -- and the cohorts that we gained during Q2 have shown a very, very similar pattern to Q2 '19, Q2 '18 and Q1 '20 and so on. So it was an uplift there. But in these cases, these 2 growth companies that we now are acquiring and that are joining the group, they have proven that their products are stronger than just having a bump there. They have continued to grow [strong].

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**Operator**

And the next question Comes from the line of Erik Lindholm from Nordea.

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**Erik Lindholm-Rojestal** - Nordea Markets, Research Division - Analyst

Sorry for my bad audio quality here but I hope you can hear me. So a question on Super Free. So Super Free has obviously pivoted from being a Social Casino company to more of a casual word game developer. But what portion of sort of 2021 revenues do you see coming from Social Casino? And are you spending any user acquisition on those games?

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**Jörgen Larsson** - Stillfront Group AB (publ) - CEO & President

Erik. So as we -- we don't -- we haven't specified that in 2021. But as you clearly can see, it's down to less than 25%, and the run rate even lower, I would say, so -- and since they have the strong traction they have and they have actively taken the decision not to continue to invest in the Social Casino area, that will continue to 2021. Exactly the number is, of course, at this point hard to say, but it will be a very small portion we expect in 2021. Then they shouldn't just close down the games. They will continue having them running as they support some players, but that is not where they have built their engine. It's not where they have -- the games in the pipeline are going rather towards Mash-up, so a bit higher dual complexity type of game play rather than going the other direction towards Social Casino. So it will be a very small portion in 2021.

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**Erik Lindholm-Rojestal** - Nordea Markets, Research Division - Analyst

Right, great. And so a question here on the releases of Super Free as well. So they had quite a few releases between 2017 and 2020 it seems, but a lot of releases in 2020. So sort of what is driving this flurry of releases in 2020, and should we expect an equal number of games for 2021?

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**Jörgen Larsson** - Stillfront Group AB (publ) - CEO & President

We were quite -- stated quite clear, 5-plus games are well progressed. So I think it's -- if these games gained a traction, 1 or 2 of them or several of them, of course then you're putting more effort into growing these games rather than just prototyping. So it's partly depending on how these games are performing. But also looking back, what they did cleverly was to build the engine, not only building a couple of games, so that you don't have -- if it takes off as it has been, which they obviously didn't know in '17, then you have the engine and also the business platform with [our electric] and so on. So you really can use the -- or can grasp the full potential of the new product. So I think that now it's 5 products. They will continue to prototype and find other ways of leveraging the recipe that obviously works extremely well. Whether that renders 5 additional products when we speak in 1 year from now, or 10 or 2, that depends very much on how the traction is with the existing products being live, and the existing pipeline how it will be performing.

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**Erik Lindholm-Rojestal** - Nordea Markets, Research Division - Analyst

And 1 more question here on M&A. So with these acquisitions done, your leverage ratio is obviously around your target. Do you feel that you can do more M&A already now? And yes, what's your current pipeline?

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**Jörgen Larsson** - Stillfront Group AB (publ) - CEO & President

Yes. We -- as I said and also Marina, that we think we have a very strong pipeline, not only then -- it was not only consisting of these 2 opportunities. So yes. We -- again, we work long term. We have a very clear view of what we should add. We have -- we are in dialogue with companies beyond this. And I think financially-wise we have capacity and -- both on the debt side, we have a strong cash flow and the leverage ratio was built upon the Q3 numbers, not the run rate or not the 2021 numbers, obviously. So yes, we have capacity and we have an ambition and appetite, and we have a strong pipeline. So I hope we will have more calls like this in the future.

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**Erik Lindholm-Rojestal** - Nordea Markets, Research Division - Analyst

Okay, great. The final question, actually. So was there any auction process for these 2 companies for the acquisitions?

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**Jörgen Larsson** - Stillfront Group AB (publ) - CEO & President

I mean, there is, in some way, always a competitive situation because it's several -- a handful, I should say, companies that has an ambition to be active in consolidation. But it's not -- I mean, as you can see on what we are paying here, 6.5x approximately the EBITDA ex 2021, you might draw the conclusion that it wasn't an open auction because then the price, upfront price usually is higher. So I think that it's a more complex thing than just looking at -- especially when you talk to the management and the true players, they have an appetite on building their studio to a completely new level and also financially wise, they then expect that both the share price of Stillfront will increase, so they have an upside in the stock that they have received, but also not the least that they target to really grow their business so that the earn-out will be significant. So if they judge, if the guys in the studios judge that coming into Stillfront increases my opportunity to operationalwise excel even more and grow our business even more, that is, of course, factored in. So it's not only the upfront nominal price, so to speak.

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**Operator**

(Operator Instructions)

And as there seem to be no further questions, I'll hand it back to the speakers for closing remarks.

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**Jörgen Larsson** - *Stillfront Group AB (publ) - CEO & President*

Thank you, and thank you all for dialing in this morning, and the questions that we've heard, and I hope and think that we will talk more about these 2 fantastic studios that have joined the group or will join the group. And we are optimistic about what that could bring. So looking forward to further exciting presentations on these 2 acquisitions as we talk about our earnings going forward. Thank you, everybody.

**Operator**

This now concludes our conference call. Thank you for participating.

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