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# Stillfront Group AB (SF.SE)

Q3 2022 Earnings Call

## CORPORATE PARTICIPANTS

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### Andreas Uddman

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### Rasmus Engberg

*Analyst, Svenska Handelsbanken AB*

### Simon Jönsson

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## MANAGEMENT DISCUSSION SECTION

### Hans Jörgen Larsson

*Chief Executive Officer, Stillfront Group AB*

Welcome, everyone, to the Stillfront Q3 Earnings Call. I will be presenting as CEO, Jörgen Larsson, alongside with CFO, Andreas Uddman.

We have a strong continued growth in the third quarter, total growth of 36% and we also were well above market in organic growth. We will come back to these topics later. Very much based upon that, we were successful in our live ops, but also in marketing, strong performance from strategy games, and of course supported by the positive FX effect, in particular the US dollar.

We also leverage from the fact that we are more diversified than ever at Stillfront, which you can see on the right side of this slide, both in terms of where we are present with the red dots, our offices, which we have leverage from, but also how you can see how our revenues are distributed. So, now Europe and Asia is on par and North America is on 46%. Further on this slide, it's important to emphasize something that is very important when we manage and operate our business, and that is that we continue to deliver a strong cash flow and cash generative. And we also have during the quarter diversified further our financing platform, which Andreas will go into later in this presentation.

Next slide, please. So, as briefly mentioned, very much of our growth this quarter is based upon successful in-game events and campaigns. So, what we have been working with and live ops is such a key lever for us to achieve growth, and that is very much that we work with campaigns where we'll actively with pricing and many other things. Of course, events and things updates, feature updates, as well as other types of content updates. So, we have achieved what we have achieved this quarter with less UA spend, but we have achieved that through live ops. And again, live ops is larger – to a larger and larger extent, something where we can see that we can leverage the fact that we are a very well-diversified group of studios and game teams and products. So, more synergies coming within live ops already now, but we expect that to also be clear going into next year.

We can – we are happy to see that the brand strategy engine that is based on – built on the Bytro engine, we have leveraged further. So, we have the five games out now from three different studio based upon that engine, which is, of course, a very efficient way for us to grow as we can be much more capital efficient for getting out new games. Also pleasing to see that Super Free for the fourth consecutive quarter have added a game to the active portfolio, which is the single game that came in in the third quarter, which is usually not a good quarter for launching games since this is the weakest quarter seasonality wise for us.

But nevertheless, looking over the last year, we have added 21 games in total. So, we're now up to 77 games. Out of these 21 games, 15 have been added organically out of approximately 30 going into soft launch. So, we think that success rate is on par or even slightly better than we have had historically. We also – it's also important to note that in general terms, this is always our slowest quarter. But nevertheless, we have been able to improve our total performance and organic growth as we will come back to in a second.

Next slide, please. So, looking at some of our financial development. As mentioned, net revenues grew by 36% year-over-year driven both by acquisitions, of course the positive FX effect and organic growth. You can see on the right upper side of the slide that we had 1.4% organic growth, 22% growth from our acquisitions, hence our acquisitions are developing satisfactory or from satisfactory to very good. So, we are pleased with the acquisitions that we've made the last year, Jawaker, that now is organic from the 1st of October, and they will support us we're sure and also very stable performance from 6waves.

Also, we can note that we increased our margins from Q2 to Q3. So, we have an adjusted EBIT margin of 29%. And also, it's important to emphasize that the organic growth that we have, 1.4%, is not the number that we are targeting or we are pleased with. But yeah, if you look at in relation to how the market has been developing, which is between 10%, some market analysts say up to, there was a report I think yesterday of 13% negative growth that in relation to that, which is of course also important to factor in I think it's a good number, but we're not satisfied with that number going forward and we expect that that will improve not only in Q4, but into next year.

You can also see that we are on 24% on UA in relation to net revenues, which is the same as we have in Q3 last year, but 2% lower than we had in Q2. So, it's following in that respect acquired expected pattern. If you look at the LTM numbers, you can see a very, very stable UA level the last four quarters.

With that, I can also, by the way, mention that we have had if you look at all the way back to LTM Q3, we still had a positive effect from the pandemic. And you can also see a shift from Q1, Q2 when 6waves came in. So, we had a negative gross margin effect that we knew about, that we have communicated several times, which is approximately give or take but up to approximately 2% lower due to the fact that they are on board and have today only third party publishing, which then obviously means that you have lower gross margin paying royalties. But on the other hand, you don't have the development costs. So, it's a different dynamic in that P&L. But what we have stated and we are working on is that the product mix, not only being third party publishing, but also our work with improving the portion of ad revenues will improve our gross margin and we are on track regarding these efforts.

Next slide, please. Looking at our interactive portfolio. Now, we have 77 games in our active portfolio. The mobile share was 77%, ad bookings 14%, and you can also see the split where the Casual & Mash-up continues to be the largest area with 43% of our revenues and Strategy at 35%, and the rest is Simulation, RPG & Action. You can see also on this slide, so a lot of numbers. I will not walk through all of them, but you can see that we have a clear and stable uplift on DAU and MAU numbers year-over-year and also the MPU numbers. And that is also driven both by the acquisitions but also stable performance from our, not the least, but in Strategy but also in

some other areas. You can see that the average revenue per daily active users is significantly increasing and that is due to both positive FX effect, but also the product mix with strategy games typically being much stronger in that parameter, which is weighing in higher or to a large extent increasing the average revenue per daily active user.

I've said at previous calls also touched upon that on the previous slide that we should be on higher levels when it comes to ad bookings. We are 14% now. We were up at 19%, and ideally I would see that we are between 15% and 20%. But of course, as we have added both through successful launches and strategy, where you have a natural lower portion of ad revenues, but also the acquisition of 6waves, it's a lot lower portion of the revenues. However, I'm pleased to see that we have been able to grow organically the actual numbers by 11% in ad bookings. So, in absolute numbers, it's growing. In relative numbers, it's declining. But that is due to obviously the fact that we are growing by 36% mainly in Strategy.

Next slide, please. Also looking into bits and pieces, the different areas in our active portfolio, we will not walk through all the numbers, but you can see clearly that we continue to have good traction in Strategy. So, as I said last quarter, Strategy strikes back, and I think that goes for this quarter as well. So, that is important not only dollar for dollar, so to speak, but it's important because strategy has a much higher retention than Casual & Mash-Up, but also Casual & Mash-Up has been growing significantly the last year.

You can see that Simulation, RPG & Action are declining slightly year-over-year 6%. And that is basically through the fact that we have this very dynamic UA allocation. We only put the UA to the products, the studios, and the types of games that are delivering the best deals. So, we never keep up budgets for the year just for the sake of it, but we dynamically allocate to get the best possible return. We have consistently been able to deliver return on that spend well within 180 days, and that's after platform fees.

We can see also the improved monetization year-over-year across the portfolio, driven by positive FX, of course, but also the product mix again. And I'm pleased to see that. It's also a sign that live ops is working, as I said initially, very well for us, because that is obviously driving the average revenue per daily active users more than it drives the number of users active. We continue to spend much on strategy because we have a very high and stable returns, and that is again important for our stability and predictability for many quarters and years to come.

So basically with that, I would like to hand over to Andreas.

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## Andreas Uddman

*Chief Financial Officer, Stillfront Group AB*

Thank you, Jörgen. Moving to the next slide, please. Continued with very strong cash flow generation, looking at the quarter stand-alone, we generated SEK 549 million, which is an increase of 41% from operations prior to net working capital adjustments. Including in that, we had the tax paid of SEK 78 million. In this quarter, we had a negative impact from working capital, mainly driven by a reduction in liabilities, that of course has certain seasonality in it, but still very strong cash flow generated almost SEK 500 million after net working capital adjustments.

We have continued to invest in our portfolio. We spend in total, we have investment – investments which is driven partly by product development, but also by settling the last earn-outs for the year. So, we invested SEK 257 million in new products in our platform and the group reached 14.4% of our revenues. And with respect to the last cash earn-outs for 2021 and that was SEK 290 million. So we have no earn-outs to pay relating to 2021 post this quarter. In terms of financing, negative SEK 103 million, mainly driven by a small SEK 14 million in terms of lease payments and then net change in borrowings of negative SEK 89 million for the quarter.

Looking at another last 12 months, capital from operation before net working capital above SEK 2 billion for the first time, which is an increase by 34%, driven by of course our growth in the business as overall. We had a cash flow after operations which was SEK 1.9 billion or a bit more than that, which is an increase by SEK 380 million or 25%. We have this, as you can see also when you look at the Q3 numbers, it is the sort of a net working capital effect that has a negative impact in this quarter. Adjusting for that, of course, the – and that will adjust over time that the underlying [indiscernible] (00:14:35) slightly stronger and in the relations to cash flow before – from operations before net working capital.

We have invested with this cash flow of SEK 946 million in our product portfolio. We have, as Jörgen mentioned, quite a few products came on live in the last 12 months. And we also have additional projects that are due to go live in the next quarters to come. This is in total investment of 14% of our net revenues for the same period. And the fact is that we can support this product investment with a very strong operative cash flow is, of course, encouraging.

In terms of – we have a slight decrease in terms of our free cash flow for the period. If we were to adjust and normalize sort of the working capital, we would have grown that free cash flow of approximately 10%. And it's almost SEK 1 billion that we still generate from the business after investing significant in our portfolio. We had a cash conversion of 0.49 – 0.41, sorry, for the quarter and for the last 12 months, which is still strong, slightly decreased from or a decrease from last year, but mainly driven by the working capital adjustment. And of course, that we have intentionally invested more in our product portfolio in the last 12 months.

Moving to next slide, we are in line with our targets in terms of leverage. We had SEK 3.8 billion in terms of net debt in the quarter. We still had SEK 1.35 billion in available cash and we have in total a SEK 2.2 billion of unutilized credit facilities, both short and long term. So, we are around the target that we want to be. Of course, we have the ability to exceed that target from time to time. But we are in terms of capital structure where we want to be at this time.

Some bigger events that happened in Q3. We did sign a new term facility with the Swedish Export Credit Corporation of €60 million. That was drawn post the quarter or the days just after. That, of course, improves our maturity profile because we used the proceeds of that debt maturity or that new term loan to redeem our bond loan that was maturing later in the year. So, we have taken big steps of getting an even better maturity profile, but also that we have an additional financing partner on our debt side with our RCF banks, including our bond investors plus non-EU partners. So this was a good move in terms of creating financial stability in the company.

To summarize then the quarter, we have now 77 games, and we have a stronger presence in Asia. So, we have a very much – even stronger diversified income streams from more games, more regions, et cetera. And of course, that creates stability in our revenue recognition over time. We have continued to invest both in our products, and we have done that for quite some time now, but also on the Stillops platform. And the reason we can do that is that we have a very strong cash flow-generating business that ensures that we can ensure to take those investments to build Stillfront further. And in addition to this, we then improved our financing platform further, which ensures that we have good ability to act when need be on opportunities.

And with that, I hand back to Jörgen.

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**Hans Jörgen Larsson**

*Chief Executive Officer, Stillfront Group AB*

Thank you, Andreas. So, a short summary before we roll into Q&As. So, we had an organic growth that was improved from Q2 into Q3. So, we went from 0.7% to 1.4%. Again, not the level that we're satisfied with, but the trend is very strong from being at – on par with the market in Q1, minus 6%, 7%. And then we improved when the market went in the other direction, and that continued into Q3. But the mobile games market, as we – as you all have probably read about, is softer than anyone expected, I would like to guess, definitely what we expected, and it has gone again with a negative trend. This is for this year. I think we will very soon go over into next year into the underlying structure growth in this market, which all expect will happen and will be there for a long time. We still have a very strange year in terms of being in the shadow of the pandemic, making the games market weaker. Also, I think it's not only about comparison, it's maybe the case that more the seasonality is stronger in a way in Q3 because people can travel again.

So, there are many components that are not so easy to envision how the market actually is performing short term. But I'm convinced that during 2023, we will see that we're back into good single digit growth for the whole market. And that is, of course, something that we also as an impact of us. We build our business. We create the synergies. We have built Stillops platform so that we shall be able consistently to outgrow the market, not only this very unique when we are, well, maybe 12%, 13% this unique quarter, 12%, 13% better than the market, but we should consistently, as we have done for more than a decade, outgrow our market organically.

But now, the visibility is a bit lower what happens in Q4. So, that's why we are not repeating or reiterating our mid-single digit for the full-year. But we are – and that is very important – we believe that our positive trend that we have seen throughout the year will continue into Q4, and we are again optimistic that we will continue into 2023 when it comes to our organic growth. And also, we are very pleased with our acquisitions and not the least Jawaker which will be organic – is organic today but not as of last of September but of 1st of October. So basically, we are much stronger than the market. We're not happy with 1.4%. We are pleased with the trend and we are sure that trend will continue for a long time just as we have had for many years looking backwards and looking into the future.

So, with that, I would like to open up for Q&A, please. Take it away.

## QUESTION AND ANSWER SECTION

**Operator:** Thank you very much, sir. We will now begin the question-and-answer session. [Operator Instructions]

The first question comes from Nicolas Langlet from BNP Exane. Please proceed with your question, Nicolas.

**Nicolas Langlet**

*Analyst, Exane SA*

Q

Yes. Hello. Good morning, everyone, and thanks for taking the question. So, three questions. First, you expect the like-for-like to accelerate in Q4. Is it mostly related to better market conditions or your own initiative? You have mentioned strong lineup of new games. Do you consider it much better compared to last year? Second question, on UA spending. It was done quite a lot sequentially in Q3. Is there any reason behind the business seasonality? Have you seen less favorable return on UA spending recently and what should we expect for Q4? And finally, we had the consensus at SEK 2.07 billion adjusted EBIT for 2022. Given the different moving parts for Q4, is it a level you are comfortable with? Thank you.

**Hans Jörgen Larsson**

*Chief Executive Officer, Stillfront Group AB*

A

So, starting with the development into the next quarter, we don't think that we will have very much support from the market. The visibility is low. So, and it's even lower than the usual Q4 both because we have the external macro factors that we all read about every single day or hour or minutes. But also, there's only two external events that have historically have an impact on our business. And that is the US Presidential election and the two sports events, so it's three events. One is the World Cup in football or soccer. And that – this for the first time, happens in November into December. So, whether that will have a good impact or neutral impact or what kind of impact that might have is hard to say. Also, other consumer industries, how – will they market less, which is positive for us or will they increase in December similar to usual Decembers? We think it leans towards being lower, but it's very hard to say.

But again, we think that we have the ability to grow our organic – increase our organic growth without the support of the market. Then, we are convinced that from sometime next year, hard to say, but for many years to come, the structural growth in Mobile will be there again, as it has been. I mean, there is so much more to do in this market, and I think no one expects that it will be a structural and negative growth for this industry.

Your second question about UA, it's lower, if I recollect your question correctly, it's lower now 24% than it were in Q2. But that is mainly due to seasonality. We are not compromising with profitability. It's easier – it would have been an easier way for us to compromise on profitability and cash flow, and then deliver a higher organic growth. But we think that's running the business with a deficit or close to deficit is a very dangerous track to go when especially when the visibility is low. So, I think that we have the ability to deploy more, as we always have done in Q4 compared to Q3. And then in Q1, is the strongest period for deploying UA with higher volumes and unchanged profitability. So I think we are well prepared for that. We have, as Andreas also mentioned, more products than ever in our active portfolio. We have the ability to optimize the marketing over a more diversified geography, more channels than ever. So, we are optimistic that we will continue just as we have done with no exception, deploying UA on the high levels with certain high returns and yields.

The third question I think it's better for, on the cash flow part, for Andreas to answer.



**Andreas Uddman**

*Chief Financial Officer, Stillfront Group AB*

A

Yeah, can you please repeat that question? Because I had – there was some background noise.

**Nicolas Langlet**

*Analyst, Exane SA*

Q

Sure, no problem. So, the consensus adjusted EBIT for the full-year is SEK 2.07 billion. Is it a level you are comfortable with given the different moving parts you will have in Q4?

**Hans Jörgen Larsson**

*Chief Executive Officer, Stillfront Group AB*

A

Is it EBIT or is it cash flow? It's a bit hard to...

**Nicolas Langlet**

*Analyst, Exane SA*

Q

It's EBIT. Adjusted EBIT.

**Hans Jörgen Larsson**

*Chief Executive Officer, Stillfront Group AB*

A

Yes. I think that we have some growth initiatives this year, which we have been very explicit about, lowering the margins and enhance the profitability. I think it's – we should continue to have lower margins than we had one year ago, I would say, then we were supported by the pandemic. So compared with three years ago, because we invest in our profitability and since we have this lower gross margin, but the initiatives we have already set in place to improve the gross margin will pay off. Whether that happens in Q1 next year or in Q2 is a bit hard to say because it's new games being launched by 6waves, for instance, first party and also other Stillfront catalog games. So, we are optimistic about the effects from that.

And again, as I touched upon, we are able and we are increasing in absolute numbers, our ad revenues. I also see that over time, meaning the next – into – during next year that should be able – we should be able to grow that in relative terms, which also supports our profitability. So, I'm optimistic about that we will continue to be amongst the leading one when it comes to margins and how much money we earn, basically. We should, as stated, clearly, grow with higher numbers organically. And our latest acquisitions have been developing satisfactory to very good. So, yes, I think we can be optimistic about our earnings going forward.

Would you like to add something to that?

**Andreas Uddman**

*Chief Financial Officer, Stillfront Group AB*

A

No, I think that covered it.

**Nicolas Langlet**

*Analyst, Exane SA*

Q

Okay. Okay. Thank you.



**Operator:** Thank you. The next question comes from Nick Dempsey from Barclays. Please proceed with your question, Nick.

**Nick Dempsey**

*Analyst, Barclays Capital Securities Ltd.*



Yes. Good morning, guys. I've got three. So, first one. You're confident in accelerating that organic growth in Q4. Is that just because Jawaker kicks into organic in Q4 or are you seeing in October the visibility you have an acceleration in organic growth for the same portfolio that drove Q3 organic growth?

Second question, for Super Free, you note that it's showing good progress on its return to organic growth. Given that it drops really quite heavily in Q3 last year, if that unit isn't delivering positive organic growth in this quarter with some new products in there, can we have any confidence that it will ever deliver positive organic growth?

And the third question, capitalization of product development stepped up year-on-year quite a lot for the last 12 months much more than revenue. What trend do you see in absolute terms for that capitalization of product development? Can that grow less than revenue going forward or should we not assume that?

**Hans Jörgen Larsson**

*Chief Executive Officer, Stillfront Group AB*



Yes. It's a good practice for the memory to try to recall several questions at the same time. The first one, look, going into Q4, Jawaker, as we have been explicit about, we are very pleased with their development. So, they will support our organic growth, yes. Is it the only difference? No, because we have a pipeline of 50 new products coming out. We are scaling the ones that successfully, the 15 games that I mentioned that has come into our active portfolio.

We are confident that we can scale several of them. And also, it's a better part of the – it's not a low season. We go into the dark, beautiful high season when it comes to gaming. So, of course, it's a number of factors that comes in. It's not a single one that comes in and I'm confident that summing up these different opportunities that we have will not only looking at Q4 but into next year support organic growth. So, that is my answer to your first question.

The second one was...

**Andreas Uddman**

*Chief Financial Officer, Stillfront Group AB*



Super Free.

**Hans Jörgen Larsson**

*Chief Executive Officer, Stillfront Group AB*



Super Free. Sorry. Super Free – importantly, Super Free did grow organically the first full-year as well, so more. I think it's a misperception out there that Super Free did not grow. The reason why we have been talking a lot about Super Free is that the Super Free products are quite new to us being casual and very fast moving.

So, the first three months they were on board, February to May in 2021, they were growing at tremendous, much higher numbers than we ever expected. So, they constituted very tough comps the year after, but then they declined quite rapidly for six months, and then from October last year they have been growing. So, it's important to be diligent here. They have been growing 2021 versus 2020 with higher margins than we had in our investment

calculation when we acquired them. Then we are not pleased. I had higher expectation. But if you believe that they were not growing last year, that is not correct.

Then we have much more things to do with Super Free, but Super Free does not any longer stand out. It's like any studio. Some quarters you grow, some quarters you don't grow because you have to compete about yielding the best on our UA. If you're not dealing the best, we will not allocate the capital, which is the very reason why – that is one of the main competitive advantages that we have built and one of the reasons why we can constantly be at very high margins. We are between 35% and 40% EBITDA margins we have been at in, I don't know, four years. And I think quite few gaming companies can compete with that.

And the last question was...

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**Andreas Uddman**

*Chief Financial Officer, Stillfront Group AB*

A

Yeah. I can take investments. I mean, it has been – you're completely correct. We have increased our investment pace. I think one of the reasons that we can do that is that we – we generate in the same period an operative cash flow, SEK 2 billion. This was a conscious decision taking approximately 18 months ago. We wanted to get more products out there and that we have done because we can afford it. How that will play out in the future, of course, it will be pending on the success of the or for what we have as opportunities to scale or and also to develop going forward. Whatever it will, you know, exactly that we're not guiding to how much it will be, but it has been a conscious decision. And I think it's also very important to remember we are paying it from our operative cash flow and we still have quite a significant amount of money left.

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**Hans Jörgen Larsson**

*Chief Executive Officer, Stillfront Group AB*

A

In addition to that, I can say that what we have said is that we – without having that as an exact guidance, but we – you can expect that we will – we aim to have the same pace of products coming into soft launch as we have had, which has been since we did the acceleration for improving organic growth 18 months ago, has been in the second half of last year and first half of this year, and now also the second half of this year taking 15 products for six months into soft launch.

And looking back, we can say that the 30 products that came in the last 12 months, 15 of them has qualified for the active portfolio, which is a hit rate that is significantly higher than the average on the mobile gaming market. No guarantee for the future, but I think we have good opportunities to see a hit rate which is similar. What we can expect is that we in number keep approximately that pace that in relative terms that means that the – that it's less, obviously, since we now have 77 games and when we start to this higher pace, we have 46 or something. So, in relative terms, you should expect it goes down. In absolute terms, it could be on this level next year, which is what we can say at this point in time.

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**Nick Dempsey**

*Analyst, Barclays Capital Securities Ltd.*

Q

Thank you. That's helpful.

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**Operator:** Thank you. The next question comes from Rasmus Engberg from SHB. Please proceed with your question, Rasmus.

**Rasmus Engberg**

*Analyst, Svenska Handelsbanken AB*

Q

Yes. Hi. Two questions for me. Firstly, just trying to figure out for the – on your cost side, is it still that you have typically significantly lower costs in Q3 for personnel than in the fourth quarter? And do you have some sort of accounting for vacation spend or similar or is it more closer to the third quarter? And then secondly, a bigger question relating to 2023. Obviously, we've had a fairly significant decline in margins this year, as you say, due to investments. Do you foresee next year that the margin might rebound, continue down or be stable at this level? What's your sort of best guess on that? Those are my two questions.

**Andreas Uddman**

*Chief Financial Officer, Stillfront Group AB*

A

Yeah. In terms of the staff costs, I mean, our top line is impacted by FX so as our staff costs. But you are right that there is – we're not growing the staff costs as much as we're growing our top line. So it's, of course, there are some effects where we have people allocated in west part of the regions or which country. And then, yes, there is usually a Q3 effect in some countries where you do holiday pay as you were saying anything. But that's not a massive amount of money if you look at the whole group. But that's, hopefully, answers that question.

And the second question was...

**Hans Jörgen Larsson**

*Chief Executive Officer, Stillfront Group AB*

A

Related to margins in next year by...

**Andreas Uddman**

*Chief Financial Officer, Stillfront Group AB*

A

Yeah. I think, Jörgen was deliberate around the gross profit. I would say, that's one of the key drivers. If we look at – let's break it down first to EBITDA, if we just look at – if we would have had – we had this – this quarter, we had a 37% if we would have had similar gross profit as we had the year before in the same quarter, that would have been 39%, almost 39%. So, the gross profit clear identified initiatives. UA, it's always is more seasonality driven. We have been fairly consistent between in this year versus last year, et cetera, of how that has the UA. So that's always there, not measured on that when we make the decision to deploy – the decisions to deploy, it's obviously doesn't return. So that will fluctuate.

In terms of our sort of fixed cost base, I mean, there are some fluctuations between quarters, but in general, the debts we are working hard to keep control and stability. So I think it's mainly – so down to EBITDA, I think that we will have – we have initiatives today to strengthen that. Then, of course, if you spend more on CapEx, that would impact your amortization rates going forward, it's pure mathematical calculation when you bring live – game live.

**Hans Jörgen Larsson**

*Chief Executive Officer, Stillfront Group AB*

A

What we can also add is that we do invest in other growth initiative besides that we have increased the pipeline and number of games coming out significantly. But we will also invest in other parts in something called Stillops, which is already generating significant synergies. And I am convinced that you will see more synergies both on cost side and revenue side from second half of 2023 and onwards, which is one of the most strategic, most important initiatives that we do.

To give you some sense, it's not the mathematical science about this, but we do take some of that over the P&L, the increased costs for building that. So from between 0.5% to up to 1% in increased costs over the P&L related to investments, even though it's with the P&L in this kind of things. So not we have – not the least into our data platform, but also other initiatives and other things and components in our Stillops platform. And that is I think a very strong ROI we will see in that as the synergies will increase and have increased over time.

**Rasmus Engberg**

*Analyst, Svenska Handelsbanken AB*

Q

And just to coming back to the gross margin, that's going to increase as 6waves become less dependent on third-party games, and you have a general dilution of the non-third-party games, is that the correct explanation to it?

**Hans Jörgen Larsson**

*Chief Executive Officer, Stillfront Group AB*

A

That's a main component, yes. And ideally...

**Rasmus Engberg**

*Analyst, Svenska Handelsbanken AB*

Q

Yes.

**Hans Jörgen Larsson**

*Chief Executive Officer, Stillfront Group AB*

A

...I mean, we don't want to lose the revenues that we have that are very stable and good. But we will in relative terms add the products, both what they already have in their pipeline, first party and second party. But even better is if we can get the significant volume from other Stillfront games being characterized for the gigantic Japanese mobile market, and that is which we are working on. It's hard to say whether that gains volume in February or in April or exactly what month and how fast we can scale it. But I'm convinced that at the end of next year, it will be a significant portion of our 6waves revenues improving the gross margin.

**Rasmus Engberg**

*Analyst, Svenska Handelsbanken AB*

Q

Yeah. Thanks.

**Operator:** Thank you. [Operator Instructions] The next question comes from Simon Jönsson from ABG. Please proceed with your question, Simon.

**Simon Jönsson**

*Analyst, ABG Sundal Collier*

Q

Hi, Jörgen, and Andreas. Thanks for taking my questions, and I think I will take them one by one this time. First, you talked...

**Hans Jörgen Larsson**

*Chief Executive Officer, Stillfront Group AB*

A

That's good.

**Simon Jönsson**

*Analyst, ABG Sundal Collier*

Q

...about the Super Free already, but what is the update on the Storm8? And also on KIXEYE, I think you wrote that KIXEYE has performed on expectations and you aim to start a cost savings program there. Could you elaborate on that? Has it lost money and what has the growth been?

**Hans Jörgen Larsson**

*Chief Executive Officer, Stillfront Group AB*

A

I mean, we – again, one of our key strengths is that we allocate the capital both for UA as well as for product development, where we see and deem and can measure that a deal is the best. That means that any movement in how much traction you have will be stronger with our model. But that is something that we would like to see because that means that our model generates a surplus compared to if you have a standard budget per year or something like that. And all movements will be elevated from that. So, both the products like Candywriter last 15 months have been growing organically by 40%-ish because they have yielded so good with new products and with UA. But that means that the studios that are not able to deploy UA returning it as fast will not get that. And hence, they will – their performance will go down. But that is how we should do and we want to do, and it's a pillar of our strategy. Otherwise, our whole portfolio and our profitability would be several, many percentage points lower.

So, coming to your question, Storm8 has been – was the first 6 to 12 months, I think, the most successful. They grew by 70% organically the first quarter being onboard. So, it has been our most successful studio by far. But then when the – these cohorts that were acquired during the pandemic was churning out, the performance has been tougher. So, they have been declining compared to that level. So, that is how it should work, but because we have deployed that money elsewhere. So, Storm8 is still a very important, very large studio for us. We are convinced that we can, in different ways, get the solid growth back, but it will be individual quarters with ups and downs, and it should be. That's important.

When it comes to KIXEYE, it's slightly different because there, we are – we need to fix that by cost saves, which is not the case at Storm8. We think we can improve top line. We are not pleased with the development. And there, you have just to act with ordinary management and correct the cost side. So – and then we – if we would give P&Ls for each of our 23 studios, this will be a very, very long call. So, we don't go out with that number but we are not pleased – it's not on par, that we can say, with the standards of profitability that we have and require from each of the studios. But it's very few quarters, any of our studios lose this money, that's important. But it could be that they lose momentum and sometimes we deem that this must be fixed with cost cutting, other cases, we can see that they can grow with investments, live ops or UA on existing products and/or with new products.

**Andreas Uddman**

*Chief Financial Officer, Stillfront Group AB*

A

Yes. It should not be interpreted. Yes. I mean, usually when you prepare your cost size, you do that prior to something happening. So, it shouldn't be interpreted that necessarily kicks the lost money. The more how do we set up the organization to be more efficient to be more lean on the cost side – and we see that this is important. This will happen in in our portfolio. It has happened historically and will happen. And that's the beauty of it, that each – each studio goes through different cycles as you do as an independent company as well.

**Simon Jönsson**

*Analyst, ABG Sundal Collier*

Q

All right. Thank you for that color. Any other subsidiaries that you think are performing below expectations?

**Hans Jörgen Larsson**

*Chief Executive Officer, Stillfront Group AB*

A

Again, I'll try to be clear on this one. It will always be some studios that are overperforming compared to our average or our expectations. Other studios will, from time to time, be performing lower. I mean, by definition, not all studios can overperform, then they will be on par. So, this is the whole thing, again, like it should be that way because then we can optimize over our complete portfolio and very dynamically reallocate capital for product development for staff as in this case, which is not that open but more often UA, and that is done with a very rapid pace.

So, some studios on their average every quarter, is it the same studios? Not usually or very seldom. So, it's impossible to answer more exactly on that. But it's really important, if you should understand Stillfront to understand the benefits of this. It's a product portfolio. And sometimes, in – or it's a portfolio approach. In a portfolio, by definition, if you optimize the portfolio, you have some things that goes better than others. And that's why we have such a stable EBITDA margins and also back to organic growth now since we do that. Otherwise, we will perform less, less strong.

**Simon Jönsson**

*Analyst, ABG Sundal Collier*

Q

Yes. Thank you. And last one for me. The UA was up significantly in strategy, but was it up if you exclude acquisition of 6waves as well?

**Hans Jörgen Larsson**

*Chief Executive Officer, Stillfront Group AB*

A

Without going into again commenting on all products and studio and/or studios, but on average, yes, or we have increased – have significant organic traction with our not the least our ground strategy games that has been performing far better than I ever expected for quite a long time now. So and it's very encouraging to see that we can grow. And you should take Supremacy 1914 as an example that on its 11th, 12th, and now 13th year, we have been able to grow that game top three, four games in our portfolio. Four years ago, I had a question whether that was a dying product, which again shows the importance of having product with long life cycle, where we dynamically scale them while the opportunity is driven by new features, driven by that we find pockets of traffic or new regions to explore with the same products. That is the key strength that we have.

**Simon Jönsson**

*Analyst, ABG Sundal Collier*

Q

Yeah. That's impressive. Thank you so much for taking the questions.

**Operator:** Thank you. We have no further questions at this time. This concludes the question-and-answer session. I would like to turn the conference back to Mr. Jörgen Larsson for closing remarks. Thank you, sir.

**Hans Jörgen Larsson**

*Chief Executive Officer, Stillfront Group AB*

Thank you very much and thank you for dialing in this morning, and good discussions and good questions, and looking forward to interact with several of you in the near future. And also, we're looking forward to post a strong Q4. Thank you, everyone.

**Operator:** Thank you, sir. The conference has now concluded. Thank you very much for your attendance. And you may now disconnect your lines.

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