

Embracer Group

Targets in line, but significant M&A headroom

- Asmod targets in line with our expectations...
- ...but net debt target opens up for aggressive M&A
- We see potential for >20% earnings CAGR in M&A scenario

Financial targets in line with expectations

Asmodee presented financial targets this morning ahead of its CMD later today (starting 13.00 CET, in Stockholm, [link](#) to webcast). The targets include: 1) mid single-digits organic growth (further enhanced by M&A), 2) 18% adj. EBITDA margin, and 3) <3.0x ND/EBITDA in the medium term and <2.0x ND/EBITDA long-term. Embracer also announced that it will inject EUR 400m equity capital into Asmodee before the spin-off (when the Easybrain divestment has closed). We believe Asmodee will be spun-off right after the fiscal Q3 report is presented in March 2025, which also happens to be Asmodee's strongest quarter. The financial targets are relatively in line with our expectations. We forecast 3% organic sales CAGR and 6% organic earnings CAGR coming years for Asmodee with an adj. EBIT margin of 15% this year (FY24/25e), which corresponds to 18% adj. EBITDA margin (in line with target).

Headroom to reach SEK 4.6bn adj. EBIT 2028e, >20% CAGR

With most of the FCF for Asmodee usually coming in H2, we believe the leverage ratio will fall to 1.9x ND/EBITDA at the end of FY24/25e, right after the spin-off. Given that Asmodee is targeting <3.0x ND/EBITDA near-term, one could read into this that management expect to leverage up a bit and be aggressive on M&A. We have conducted an M&A scenario (see table below) where we estimate that Asmodee has the financial ability to grow adj. EBIT by >20% CAGR between 2024 and 2028 by increasing the leverage to 2.7x initially, and reach 2.0x by 2028 (in line with target). In this scenario, we see the adj. EBIT reaching SEK 4.6bn by 2028. As we highlighted after our trip to Spiel Essen in Germany in October, where we met with Asmodee's management team, we believe there are a lot of opportunities for Asmodee to continue to consolidate the market, including acquiring studios and IPs (bolt-ons) and more strategic acquisitions of distributors in the US which we view as an untapped potential ([read more](#)). We hope to hear more about that on the CMD.

36-78% upside to Asmodee in M&A scenario

With a strong balance sheet, we reiterate our view that Asmodee is positioned to accelerate. Moreover, we believe that its M&A potential has been devalued as part of Embracer as most of its FCF has been used to reduce debt but that this should change now, and that Asmodee deserves a valuation in line with its closest peer Hasbro (12x EBIT). By valuing Asmodee at 12x adj. EBIT and the remaining Embracer at 6x (in line with what we think is the implied valuation in the share currently), we end up at our target price of SEK 35 per share. Over time, we believe Asmodee could reach a valuation of 15x adj. EBIT, warranting a sum-of-the-parts value of SEK 40 per share, for the group (see table below). In our M&A scenario, we arrive at a NPV share price of SEK 17-22 for Asmodee, or SEK 32 per share at 2028, 36-78% upside to what we think is the currently implied value of Asmodee (SEK 13 per share, at 10x adj. EBIT).

Fast comment

BUY

IT

EMBRAC.B-SE/EMBRACB SS

Share price (SEK)	18/11/2024	28.80
Target price		35.0

MCap (SEKm)	40,404
MCap (EURm)	3,336
No. of shares (m)	1,381.0
Free float (%)	57.2
Av. daily volume (k)	3,101

Next event Q3 Report 13 February 2025

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ABGSCe sum-of-the-parts valuation

Scenario	FY25/26e	Added	Target	FY24/25e	Equity	Per
Asmodee fully valued	Adj. EBIT	overhead	multiple	EV	Net debt	share
Asmodee	2,326	-50	15	35,169	5,000	22
RemainCo	3,051		6	19,677	-4,832	18
Total share value (SEK)						40

Scenario	FY25/26e	Added	Target	FY24/25e	Equity	Per
Asmodee initial value	Adj. EBIT	overhead	multiple	EV	Net debt	share
Asmodee	2,326	-50	12	28,340	5,000	17
RemainCo	3,051		6	19,524	-4,832	18
Total share value (SEK)						35

Scenario	FY25/26e	Added	Target	FY24/25e	Equity	Per
Implied current value	Adj. EBIT	overhead	multiple	EV	Net debt	share
Asmodee	2,326	-50	10	22,763	5,000	13
RemainCo	3,051		6	17,694	-4,832	16
Total share value (SEK)						29

Peer valuation	2024e	2025e	2026e
Tabletop	EV/EBIT	EV/EBIT	EV/EBIT
Hasbro	14	12	11
Mattel	11	10	9
Gaming			
Devolver Digital	23	9	6
Digital Bros	5	3	
Playtika	9	8	7
Pullup	6	6	6
Square Enix	11	10	9
Team17 Group	7	6	5
Ubisoft	34	16	10
Gaming peer average	9	8	7

Source: ABG Sundal Collier, company data, FactSet consensus

Asmodee M&A scenario overview

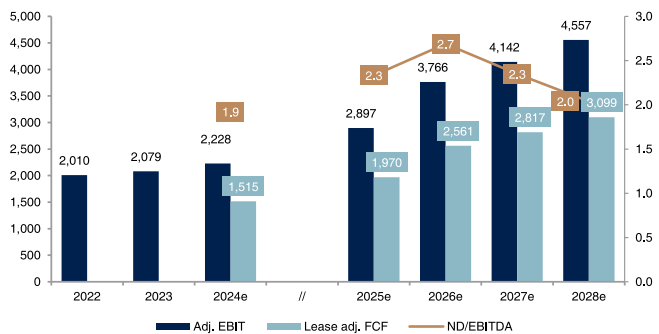
SEKm	2022	2023	2024e	2025e	2026e	2027e	2028e
Adj. EBIT	2,010	2,079	2,228	2,897	3,766	4,142	4,557
y-o-y	n.a.	3%	7%	30%	30%	10%	10%
<i>Of which org+FX</i>				4%	5%	5%	5%
<i>Of which M&A</i>				26%	25%	5%	5%
Lease adj. FCF			1,515	1,970	2,561	2,817	3,099
<i>FCF / adj. EBIT</i>			68%	68%	68%	68%	68%
Dividend				-290	-768	-845	-930
<i>Dividend / FCF</i>				30%	30%	30%	30%
M&A spend*				-4,564	-5,725	-1,506	-1,657
Net CF			1,515	-2,884	-3,933	465	512
Net debt			5,000	7,884	11,817	11,352	10,840
ND/EBITDA (x)			1.9	2.3	2.7	2.3	2.0
Current share price**			13	13	13	13	13
Target multiple (x)			10	12	12	12	12
Target EV (SEKm)			22,283	34,762	45,191	49,710	54,681
Market cap (SEKm)			17,283	26,877	33,373	38,358	43,841
Share count			1,381	1,381	1,381	1,381	1,381
Target SP (SEK)			13	19	24	28	32
%				56%	93%	122%	154%
IRR				56%	39%	30%	26%
DPS				0.21	0.56	0.61	0.67
NPV of dividend (SEK)				0.19	0.47	0.48	0.49
Return requirement				8%	8%	8%	8%
Dividend adj. NPV (SEK)				17	20	21	22
Return				36%	58%	68%	78%

Source: ABG Sundal Collier, company data

* We assume 7x adj. EBIT paid

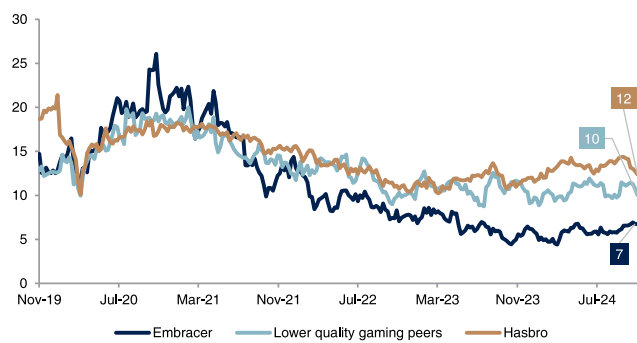
** Our estimation of the implied value for Asmodee currently

Adj. EBIT, FCF, leverage in M&A scenario



Source: ABG Sundal Collier, company data

EV/adj. EBIT vs. peers



Source: ABG Sundal Collier, FactSet consensus

Embracer Group

SEKm	2022	2023	2024e	2025e	2026e
Sales	37,665	42,206	36,460	34,210	35,337
<i>Sales growth (%)</i>	<i>121.1</i>	<i>12.1</i>	<i>-13.6</i>	<i>-6.2</i>	<i>3.3</i>
EBITDA	6,718	1,218	7,185	8,795	9,619
<i>EBITDA margin (%)</i>	<i>17.8</i>	<i>2.9</i>	<i>19.7</i>	<i>25.7</i>	<i>27.2</i>
EBIT adj.	6,366	7,063	5,569	5,377	5,896
<i>EBIT adj. margin (%)</i>	<i>16.9</i>	<i>16.7</i>	<i>15.3</i>	<i>15.7</i>	<i>16.7</i>
Pretax profit	5,017	-18,734	52	2,314	3,425
EPS	3.27	-12.57	-0.53	1.09	1.84
<i>EPS growth (%)</i>	<i>-187.6</i>	<i>-484.8</i>	<i>-95.8</i>	<i>-305.1</i>	<i>68.5</i>
EPS adj.	3.89	4.39	2.49	2.83	3.20
DPS	0.00	0.00	0.00	0.00	0.00
EV/EBITDA (x)	9.3	53.3	6.0	4.6	3.8
EV/EBIT adj. (x)	9.8	9.2	7.7	7.5	6.3
P/E (x)	8.8	-2.3	-54.1	26.4	15.7
P/E adj. (x)	7.4	6.6	11.6	10.2	9.0
EV/sales (x)	1.66	1.54	1.18	1.18	1.05
FCF yield (%)	-25.5	-4.1	47.6	6.8	4.4
Le. adj. FCF yld. (%)	-26.8	-5.6	46.4	5.5	3.2
Dividend yield (%)	0.0	0.0	0.0	0.0	0.0
Net IB debt/EBITDA (x)	3.4	19.1	0.4	0.1	-0.3
Le. adj. ND/EBITDA (x)	2.2	1.9	0.2	-0.1	-0.4

Source: ABG Sundal Collier, Company Data

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HOLD	29.46%	3%	2.75%
SELL	3.78%	0%	0.00%

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Company: Embracer Group

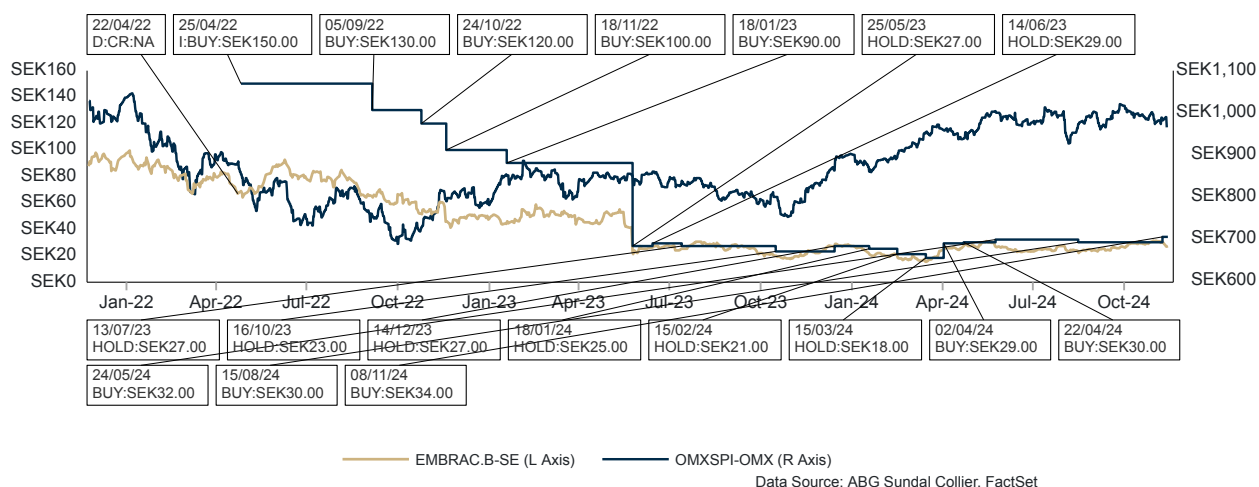
Currency: SEK

Current Recommendation: BUY

Date: 18/11/2024

Current Target price: 35.0

Current Share price: 28.80



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