



Penser Access by Carnegie

Software | Sweden | 21 November 2024

# Beyond Frames Entertainment AB

## Slow quarter with few releases – Q3 review

### A slow quarter

Revenues in the quarter were reported at SEK31.8m, down 12% Y/Y, and SEK10.7m lower than what the company implicitly needed to reach our full-year estimates. Over the first nine months of the year the company has grown 37% Y/Y, thanks to games releases in H1. Revenues were negatively affected in Q3 by the company's only games release in the period coming on 26 September and by Meta releasing its new headset after the quarter closed. EBITDA for the quarter was SEK1.5m, implying a margin of 4.6%, and was SEK5.2m what was needed to reach our full-year estimates. Altogether, this was a quarter impacted by few games releases and a hesitant industry.

### Ongoing confidence in the pipeline

Given the development in the quarter and the launch postponement of Ghosts of Tabor for PSVR2 until 2025, we cut our full-year estimate by 5.6%. Based on the lower revenues in Q3(24) and reduced estimate, we lower our full-year EBITDA estimate by SEK6.5m. We leave 2025–2026 revenue estimates unchanged, but trim EBITDA estimates by an average of 2.5% for our forecast period owing to somewhat amended cost assumptions. Our estimates assume that the two Combat Waffle titles for release in 2025 – GRIM and Silent North – will together generate similar revenues during our forecast period as Ghosts of Tabor.

### Higher required return behind fair value adjustment

We still believe Beyond Frames offers an attractive business model that can successfully mitigate many of the risks associated with games development. Moreover, we see the company as active in a rapidly growing market, with Meta expanding its revenues from the XR segment by 29% Y/Y. Despite this, we lower our fair value to SEK18–26 (26–34). The main reason is that we have lifted our required return to 16% (15%). This increase stems from the still high risk in the development portfolio and as the company remains dependent on successful games releases to turn its cash flow positive.

#### Change in estimates

	24e	25e	26e
Total Revenues	-5.6%	0.0%	0.0%
EBITDA, adj.	-34.2%	-2.9%	-2.0%
EPS, adj.	-62.0%	-17.6%	-5.0%

#### Upcoming events

Q4 - report 20 February 2025

#### Company facts (SEKm)

Number of shares	17m
Market capitalisation	188
Net debt	-8.95
EV	179
Free float	74%
Daily trading volume, average	k
Bloomberg Ticker	BEYOND SS EQUITY

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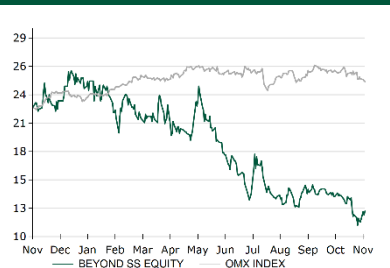
#### Forecasts (SEKm)

	2023	2024e	2025e	2026e
Total Revenues	164	204	232	265
Revenue growth	240%	25%	14%	14%
EBITDA, adj.	10	12	37	53
EBIT, adj.	-7	-19	5	21
EPS, adj.	-0.5	-0.9	0.2	1.0
EPS growth, adj.	N.m.	N.m.	N.m.	299%
BV/share	4.9	4.0	4.2	5.2
EBIT margin	Neg.	Neg.	2.6%	8.9%
ROE, adj.	Neg.	Neg.	5.9%	20.4%
ROCE, adj.	Neg.	Neg.	7.3%	25.7%
EV/Sales	3.0x	1.1x	0.9x	0.8x
EV/EBITDA	42.3x	14.3x	4.8x	3.4x
EV/EBIT	Neg.	Neg.	34.4x	8.6x
P/E, adj.	Neg.	Neg.	45.2x	11.3x
P/BV	5.0x	2.7x	2.6x	2.1x
FCF yield	Neg.	Neg.	6%	11%
Net debt / EBITDA	-2.3x	-0.3x	-0.4x	-0.6x

#### Value and risk

Fair value	SEK18.0 - 26.0
Share price	SEK10.9
Risk level	High

#### Price Performance 12 months



#### Conflicts of interest

	Yes	No
Liquidity provider		✓
Certified adviser		✓
Transactions 12m		✓

## Investment case

**Exposure to growing entertainment form:** Beyond Frames develops games in VR, one of the fastest-growing forms of digital entertainment. We believe the VR market will grow rapidly in the coming years, given the price erosion for headsets and as the games ecosystem is, in our view, approaching more of a critical mass than a few years ago. We thus believe Beyond Frames will develop well in the future.

**Risk mitigation built into the business model:** Beyond Frames uses financial partners in its games development. This minimises the risks associated with games releases and makes it possible to more rapidly reach critical mass in games volumes. Moreover, it also allows it to utilise spare capacity via work for hire projects – loaning out the use of its developers on an hourly basis. This all reduces the company's risk of failed games releases owing to delays or lack of capital. We thus believe management has succeeded in mitigating a sizeable share of the risks associated with games development and publishing.

**Accelerating growth:** Beyond Frames will keep its volumes high since it has a number of games moving into the commercial phase in the near future. This, combined with VR being on the cusp of increased penetration among players, leaves us anticipating a bright six to 18 months ahead for Beyond Frames.

## Company profile

Beyond Frames develops VR games. In recent years, this market has grown considerably thanks to the large number of headsets sold during the pandemic. Combined with the substantial drop in prices of VR headsets in recent years, this means we expect the market for such gaming platforms will grow exponentially more than the traditional games market. We also believe that games, rather than video, will be the leading vertical for VR content, putting Beyond Frames in a good position.

Beyond Frames uses external financing for a large share of its games development. This mitigates a sizeable portion of the risks typical with games development, making Beyond Frames' capital requirements far lower than if it relied on financing with its own capital. This strategy has proven successful, Ghosts of Tabor having sold close to one million copies. Beyond the sold titles, it has released downloadable content (DLC) at a value of around USD50. This DLC was released from late in Q4(23) and the company has seen buying frequency in line with some of the leading game franchises worldwide. The external financing has minimised the operational leverage, as reflected in the company's gross margin. We thus consider the business model well suited to the current market situation in the gaming sector.

During 2024, Beyond Frames has a number of externally financed games set for release, which we believe set it on a solid growth path for the coming years. Moreover, we expect the successful launch of Ghosts of Tabor to make it easier for Beyond Frames to attract financing or publishing contracts for similar games. An example of this is Beyond Frames having secured publishing agreements for two new titles in 2024–2025 with Combat Waffle, the developer of Ghosts of Tabor.

In our view, Beyond Frames is well able to develop traditional computer/console games, should the right project materialise or if it sees that the VR market is not developing in line with the current forecasts of substantial growth.

## Valuation

We believe a DCF model is the best method to value Beyond Frames. A relative valuation would be challenging at present, given the company's current commercial stage. Our DCF model provides a valuation of SEK18–26 (26–34).

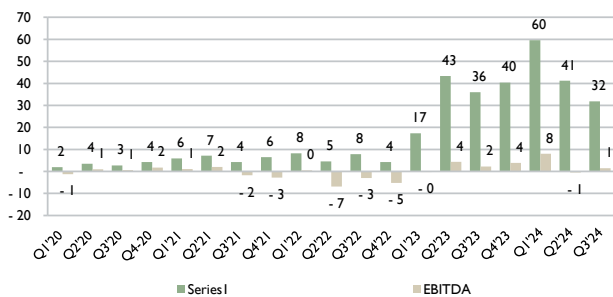
## Brief overview of the quarter

Q3 has historically been a weak quarter for the games industry, as reflected in the report from Beyond Frames. During the quarter, Ghosts of Tabor surpassed USD20m in total revenues and maintains its solid position with 835,000 registered players. Given the development of the player base and the revenues from Ghosts of Tabor, we believe it likely that the two forthcoming games from the same developer – GRIM in Q(24) and Silent North in H1(25) – will together deliver similar sales figures.

Late in the quarter, the company released Escaping Wonderland. This title is a sequel to 2020's Down the Rabbit Hole and has received a high score of 4.8/5 and a good position on the sales list. We believe it and GRIM (to be released next quarter) will allow the company to achieve growth Q/Q.

### Reaching new levels of sales and profitability (SEKm)

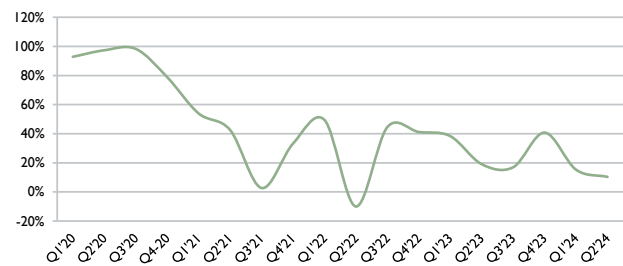
Sales and EBITDA (SEKm)



Source: Beyond Frames, Penser by Carnegie

### Changed mix affects gross margin

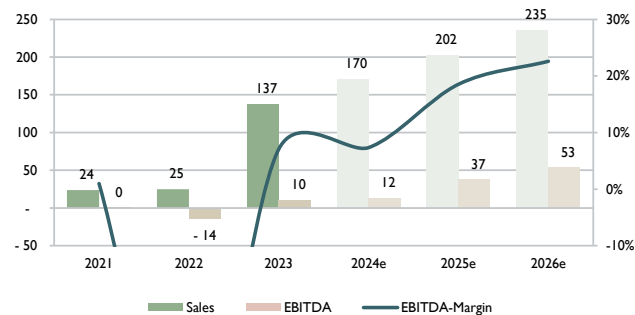
Gross margin



Source: Beyond Frames, Penser by Carnegie

### We are conservative in our sales estimates...

Sales and EBITDA (SEKm)



Source: Beyond Frames, Penser by Carnegie

### ...but expect a change in the product mix...

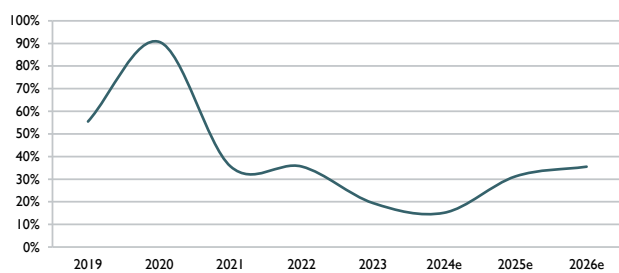
Sales mix (SEKm)



Källa: Beyond Frames, Penser by Carnegie

### ...that will spur gross margins

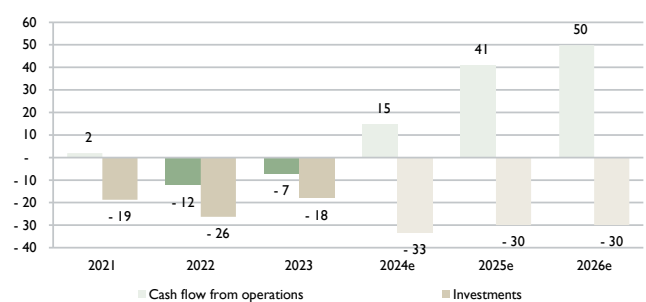
Gross margin



Source: Beyond Frames, Penser by Carnegie

### Robust liquidity in the future

Cashflow (SEKm)



Source: Beyond Frames, Penser by Carnegie

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## Valuation

DCF					
Valuation output		WACC assumptions		Terminal value assumptions	
Sum of PV of FCF (explicit period)	158	Risk free nominal rate	3,5%	Long term growth rate	3%
PV of terminal value (perpetuity formula)	201,0	Risk premium	5,5%	Long term EBIT margin	20%
<b>Enterprise value</b>	<b>359</b>	Small cap premium	6,0%	Depreciation (% of sales)	5%
Latest net debt	-9	Extra risk premium	1,0%	Capex (% of sales)	5%
Minority interests & other	0	<b>Cost of equity</b>	<b>16,0%</b>	Working cap. (% of sales)	3%
<b>Equity value</b>	<b>368</b>			Tax rate	22%
No. of shares outstanding (millions)	17				
<b>Equity value per share</b>	<b>21</b>				

### Sensitivity analysis

	Long-term growth rate							Long-term EBIT margin					
	2,0%	2,5%	3,0%	3,5%	4,0%	15,0%		17,5%	20,0%	22,5%	25,0%		
	15,0%	23	23	24	25	25		15,0%	19	21	24	27	29
	15,5%	22	22	23	23	24		15,5%	18	20	23	25	27
<b>WACC</b>	16,0%	21	21	21	22	23	<b>WACC</b>	16,0%	17	19	21	24	26
	16,5%	20	20	20	21	21		16,5%	16	18	20	22	25
	17,0%	19	19	19	20	20		17,0%	15	17	19	21	23

Source: Penser by Carnegie

Income statement							
	2020	2021	2022	2023	2024e	2025e	2026e
<b>Net sales</b>	13	24	25	137	170	202	235
Other operating income	6	16	23	27	34	30	30
<b>Total revenues</b>	18	40	48	164	204	232	265
Cost of goods sold	-1	-15	-16	-110	-144	-139	-152
<b>Gross profit</b>	17	25	32	54	60	94	114
Other Operating Expenses	-15	-24	-47	-44	-48	-56	-60
<b>EBITDA</b>	2	0	-15	10	12	37	53
<b>EBITDA, adjusted</b>	2	0	-15	10	12	37	53
<b>EBITA, adjusted</b>	2	0	-15	10	12	37	53
Amortization	-6	-8	-8	-16	-32	-32	-32
<b>EBIT</b>	-4	-8	-22	-7	-19	5	21
<b>EBIT, adjusted</b>	-4	-8	-22	-7	-19	5	21
Net Financial Items	-3	-1	0	-1	0	0	0
<b>Profit before tax</b>	-7	-8	-23	-8	-19	5	21
<b>Profit before tax, adjusted</b>	-7	-8	-23	-8	-19	5	21
Taxes	0	0	0	0	4	-1	-4
<b>Net income</b>	-8	-9	-23	-8	-15	4	17
<b>Net income, adjusted</b>	-8	-9	-23	-8	-15	4	17
<i>Sales Growth</i>	<i>Neg.</i>	116%	21%	240%	25%	14%	14%
<i>Gross Margin</i>	<i>N.m.</i>	<i>N.m.</i>	<i>N.m.</i>	39.4%	35.4%	46.3%	48.3%
<i>EBIT Margin, Adjusted</i>	<i>Neg.</i>	<i>Neg.</i>	<i>Neg.</i>	<i>Neg.</i>	<i>Neg.</i>	2.6%	8.9%
<i>EPS, Adjusted</i>	-0.54	-0.58	-1.37	-0.45	-0.88	0.24	0.96
<i>EPS Growth, Adjusted</i>	<i>N.m.</i>	<i>N.m.</i>	<i>N.m.</i>	<i>N.m.</i>	<i>N.m.</i>	<i>N.m.</i>	299%

Source: Beyond Frames Entertainment AB, Penser by Carnegie

Cash flow statement							
	2020	2021	2022	2023	2024e	2025e	2026e
EBIT	-4	-8	-22	-7	-19	5	21
Other Cash flow Items	6	8	8	15	36	31	28
Changes in working capital	5	1	2	3	-2	4	1
<b>Cash flow from operating activities</b>	7	1	-13	12	15	41	50
Investments in Fixed Assets	0	-2	-2	-1	0	0	0
Investments in intangible fixed assets	-6	-17	-25	-35	-33	-30	-30
Other Cash flow from investments	0	0	0	-1	0	0	0
<b>Cash flow from Investments</b>	-6	-19	-26	-38	-33	-30	-30
<b>Free cash flow</b>	1	-18	-39	-26	-18	11	20
New share issue / repurchase	13	42	42	0	0	0	0
Other items	2	0	0	0	0	0	0
<b>Cash flow from financing</b>	15	42	43	0	0	0	0
<b>Cash flow</b>	16	24	4	-26	-18	11	20
<b>Net debt</b>	-19	-44	-48	-22	-4	-14	-34

Source: Beyond Frames Entertainment AB, Penser by Carnegie

Balance sheet							
	2020	2021	2022	2023	2024e	2025e	2026e
<b>ASSETS</b>							
Goodwill	2	2	1	1	1	0	0
Other intangible assets	11	21	39	61	62	60	58
Financial assets	3	2	0	1	1	1	1
Other fixed assets	1	3	3	3	3	3	3
<b>Total fixed assets</b>	<b>18</b>	<b>27</b>	<b>44</b>	<b>66</b>	<b>67</b>	<b>65</b>	<b>63</b>
Accounts receivable	2	3	2	13	17	18	21
Other current assets	2	5	5	5	16	17	19
Cash and cash equivalents	19	44	48	22	4	14	34
<b>Total current assets</b>	<b>22</b>	<b>53</b>	<b>55</b>	<b>39</b>	<b>36</b>	<b>49</b>	<b>75</b>
<b>TOTAL ASSETS</b>	<b>40</b>	<b>79</b>	<b>99</b>	<b>105</b>	<b>104</b>	<b>114</b>	<b>138</b>
<b>EQUITY AND LIABILITIES</b>							
Equity	38	72	92	84	69	73	90
<b>Total equity</b>	<b>38</b>	<b>72</b>	<b>92</b>	<b>84</b>	<b>69</b>	<b>73</b>	<b>90</b>
Accounts payable	0	3	2	4	9	10	12
Other current liabilities	2	4	6	17	26	31	36
<b>Total current liabilities</b>	<b>2</b>	<b>8</b>	<b>8</b>	<b>21</b>	<b>35</b>	<b>41</b>	<b>48</b>
<b>TOTAL EQUITY AND LIABILITIES</b>	<b>40</b>	<b>79</b>	<b>99</b>	<b>105</b>	<b>104</b>	<b>114</b>	<b>138</b>

Source: Beyond Frames Entertainment AB, Penser by Carnegie

Growth and margins							
	2020	2021	2022	2023	2024e	2025e	2026e
Revenue growth	Neg.	116%	21%	240%	25%	14%	14%
EBITDA growth, adjusted	Neg.	-88%	Neg.	Neg.	29%	200%	42%
EBIT growth, adjusted	Neg.	Neg.	Neg.	Neg.	Neg.	Neg.	301%
EPS growth, adjusted	N.m.	N.m.	N.m.	N.m.	N.m.	N.m.	299%
Gross margin	N.m.	N.m.	N.m.	39.4%	35.4%	46.3%	48.3%
EBITDA margin	16.0%	1.0%	Neg.	7.1%	7.3%	18.5%	22.6%
EBITDA margin, adjusted	16.0%	1.0%	Neg.	7.1%	7.3%	18.5%	22.6%
EBIT margin	Neg.	Neg.	Neg.	Neg.	Neg.	2.6%	8.9%
EBIT margin, adjusted	Neg.	Neg.	Neg.	Neg.	Neg.	2.6%	8.9%
Profit margin, adjusted	Neg.	Neg.	Neg.	Neg.	Neg.	2.1%	7.0%

Source: Beyond Frames Entertainment AB, Penser by Carnegie

Return							
	2020	2021	2022	2023	2024e	2025e	2026e
ROE, adjusted	Neg.	Neg.	Neg.	Neg.	Neg.	6%	20%
ROCE, adjusted	Neg.	Neg.	Neg.	Neg.	Neg.	7%	26%
ROIC, adjusted	Neg.	Neg.	Neg.	Neg.	Neg.	8%	37%

Source: Beyond Frames Entertainment AB, Penser by Carnegie

### Capital efficiency

	2020	2021	2022	2023	2024e	2025e	2026e
Accounts receivable / total revenue	9%	8%	5%	8%	8%	8%	8%
Accounts payable / COGS	20%	22%	10%	4%	6%	7%	8%
Total short-term liabilities / total cost	13%	19%	12%	14%	18%	21%	23%
Working capital / total revenue	9%	2%	-1%	-2%	-1%	-3%	-3%
Capital turnover rate	0.5x	0.6x	0.5x	2.0x	3.0x	3.2x	3.0x

Source: Beyond Frames Entertainment AB, Penser by Carnegie

### Financial position

	2020	2021	2022	2023	2024e	2025e	2026e
Net debt	-19	-44	-48	-22	-4	-14	-34
Equity ratio	95%	90%	92%	80%	66%	64%	65%
Net debt / EBITDA	-9.3x	-189.6x	N.m.	-2.3x	-0.3x	-0.4x	-0.6x

Source: Beyond Frames Entertainment AB, Penser by Carnegie

### Per share data

	2020	2021	2022	2023	2024e	2025e	2026e
EPS	-0.54	-0.58	-1.37	-0.45	-0.88	0.24	0.96
EPS, adjusted	-0.54	-0.58	-1.37	-0.45	-0.88	0.24	0.96
FCF per share	0.06	-1.19	-2.37	-1.54	-1.06	0.63	1.15
Book value per share	2.69	4.55	5.35	4.89	3.98	4.22	5.18
Number of shares, m	14.2	15.8	17.2	17.2	17.3	17.3	17.3
Number of shares after dilution, average	14.2	15.0	16.5	17.2	17.2	17.3	17.3

Source: Beyond Frames Entertainment AB, Penser by Carnegie

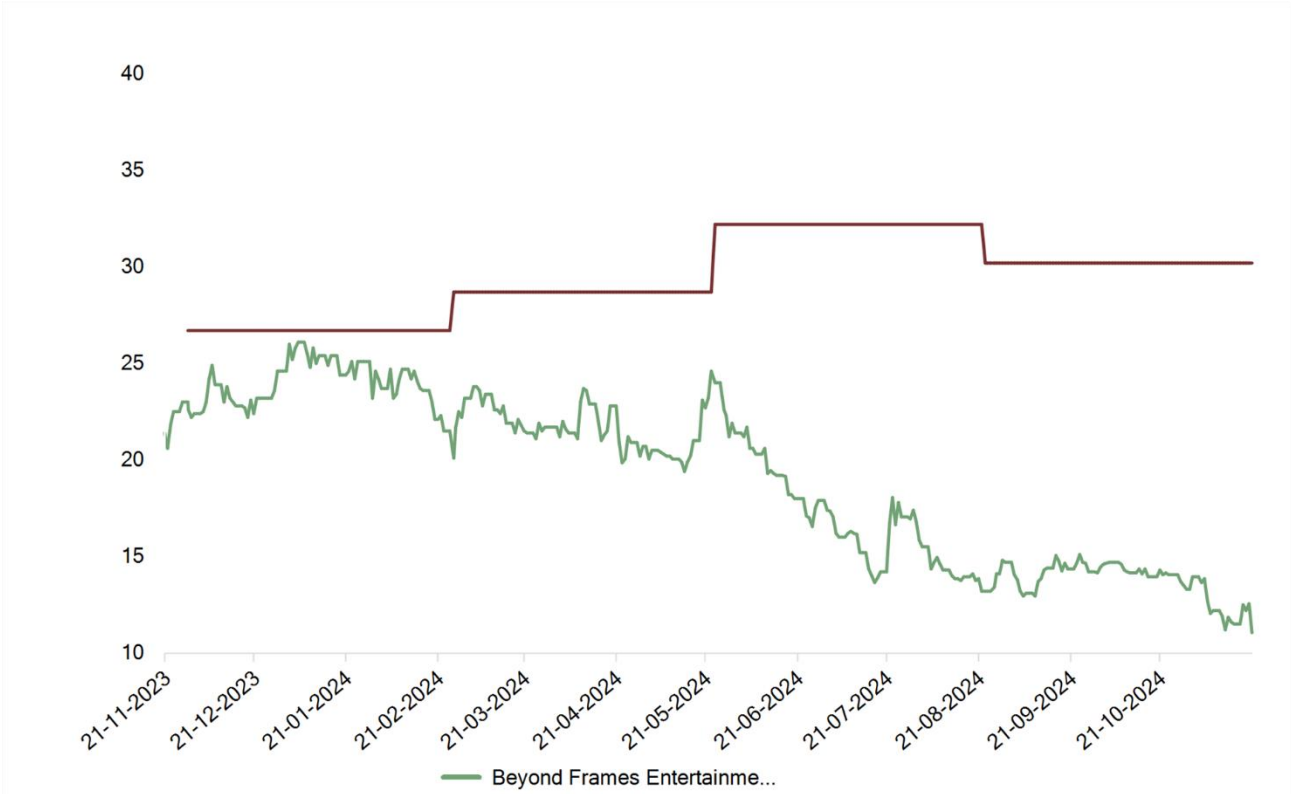
### Valuation

	2020	2021	2022	2023	2024e	2025e	2026e
P/E, adjusted	Neg.	Neg.	Neg.	Neg.	Neg.	45.2x	11.3x
P/BV	7.7x	7.8x	1.8x	5.0x	2.7x	2.6x	2.1x
P/FCF	100x	Neg.	Neg.	Neg.	Neg.	17.3x	9.4x
FCF-yield	0%	Neg.	Neg.	Neg.	Neg.	6%	11%
Dividend yield	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
Payout ratio, adjusted	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
EV/Sales	7.1x	3.0x	2.7x	1.9x	1.1x	0.9x	0.8x
EV/EBITDA, adjusted	65.1x	100x	Neg.	31.4x	14.3x	4.8x	3.4x
EV/EBIT, adjusted	Neg.	Neg.	Neg.	Neg.	Neg.	34.4x	8.6x
EV	131	118	128	304	179	179	179
Share price, year end	20.8	35.7	9.8	24.4	10.9	10.9	10.9

Source: Beyond Frames Entertainment AB, Penser by Carnegie

## Share Price and Average Fair Value Chart

### Beyond Frames Entertainment AB (BEYOND SS EQUITY)



Source: Penser by Carnegie, IDC



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