

Funcom N.V.

Pre-earnings Update



Share Price	4.48 NOK
Market Capitalisation	1,134 mNOK
Target Price	6.44 NOK

Last updated on the 21/02/2017

Funcom N.V.

Founded in 1993, Funcom is a leading developer of multiplayer online computer games for platforms such as PC, Xbox and PlayStation. Its most popular releases include titles such as 'Anarchy Online', 'The Secret World' and 'Age of Conan'. On 31st January, Funcom launched another major title – 'Conan Exiles'.

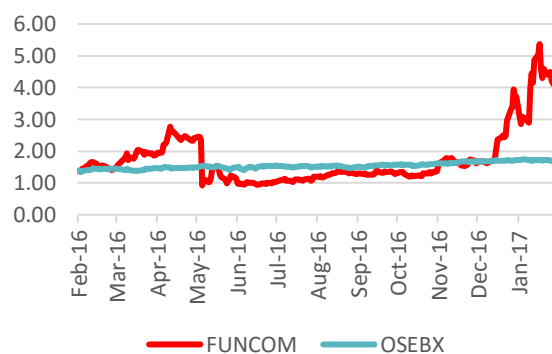
The company has been listed on the Oslo Stock Exchange under the ticker FUNCOM since 2005.

Conan Exiles still going strong

- Funcom N.V. has not released any numbers on Conan Exiles after the first week, but it seems that the game continues to sell well.
- According to steamspy.com, the game has sold around 419,000 units in three weeks, but the website is known to show significant deviation from real numbers.
- When Funcom reported 320,000 units sold in the first seven days, steamspy.com only showed 280,000 units.
- According to Prestigo's own growth trajectory for the game, Conan Exiles would have sold between 460,000 and 500,000 units as of 21st February.
- We believe that the first two weeks were very strong for the game, given the widespread media attention and then sales would have sharply fallen in the third week, settling at a more stable rate.
- This growth trajectory is typical for games that use strong PR and marketing to boost initial sales.

Company	Funcom
Ticker	FUNCOM
Exchange	Oslo Bors
Currency	NOK
Industry	Gaming
# of shares	253,260,049
Market Cap	1,134 m
Share price	4.48
Target price	6.44
Recommendation	BUY

SHARE PRICE PERFORMANCE



SWOT

- + Strong momentum in Conan Exiles
- + Multiple successful releases
- + Brand name known to millions of gamers
- Uncertainty around the future development of Conan Exiles
- Declining revenues in the Live Games market
- Competitive market place

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YouTube Views and rankings

- Furthermore, we can see that YouTube views of Conan Exiles also followed the same model – very high first two weeks and then settling to a fairly constant views per day in the third week.
- In week three, Conan Exiles has received 3,236,376 views and 17,574 comments on YouTube, which suggests that the interest in the game is still quite significant.
- Looking at Steam, the game has been pushed down in the charts by newly released games, but it is in top 3 of the Top Selling games currently in Early Access, only topped by games released in late 2016.

Revenue estimates

- Funcom has reported that the revenue generated in week one already covered the direct costs around the development of Conan Exiles.
- Assuming price of USD 29.99 per unit and 460,000 sold units, Conan Exiles has generated total sales of USD 13.8 million.
- However, Funcom would receive only part of that number.
- Firstly, the game's pricing varies across regions and therefore we could not know the exact unit price. The USA generated just under 30% of all sales according to steamspy.com, followed by Germany with 12%.
- Secondly, the company needs to pay several royalties. The most significant royalty would be that paid to Valve's Steam platform, which we believe to be around 30%.
- We also believe that Funcom would have to pay royalty for Unreal Engine 4 and that would likely be around 5%.
- There is not enough clarity about the exact agreement for using the Conan franchise and what royalty Funcom would have to pay to the holders of the Conan brand.
- Our estimates are that Conan Exiles has generated over USD 7 million, but we believe that the company will provide more details in its upcoming presentation.

Going forward

- Funcom will announce its Q4 2016 results on Monday 27th February and we expect that it will also give some information on the development of Conan Exiles.
- While the game had a flying first week with 320,000 sold units, we would be cautious to predict high expected growth rate.
- Conan Exiles relied on very strong PR and marketing that was slowly unleashed to build the interest in the game.
- Now, the game will enter a stage where it will rely on organic growth and media will play a less important role.
- Thus, it is impossible to predict how the game will sell in the next few months.
- Funcom will need to play an important role and respond to the technical issues in the game and bring new content to keep users engaged.
- In addition, Conan Exiles is a large long-term project and therefore it is too early to judge its success.
- Just as with most games in Funcom's Live portfolio, the company will hope that Conan Exiles will be a significant revenue generator for years ahead.
- In addition, the game has an important role as it is the first large game released in Funcom's new strategy and therefore it will largely determine the company's strategy.
- Lastly, Conan Exiles is just one part of the company and Funcom's performance will be determined by the overall portfolio, rather than the success of a single game.
- We currently maintain our BUY recommendation at price of **NOK 6.44 per share**.

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