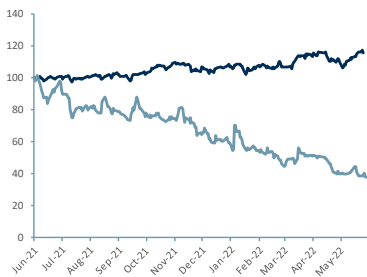


BRIEFING NOTE

52 Wk. Lo/Hi

0.97 – 2.60



PMG (lighter line) OSE market vs price relative

Tuesday, 07 June 2022

Close Price	\$0.97
52 wk Range Low	\$0.97
52 wk Range High	\$2.60
MCAP (m)	\$62.70
EV (m)	\$45.30
Index: Public	OSE
Financial YE	31-Dec
Currency	USD

Business Activity

eGaming

Key Metrics

Gross debt (m)	\$3.60
Cash (m)	\$20.28
Net Debt (Cash) (m)	-\$16.68
Net Operating Cash (m)	-\$12.97
Revenue (m)	\$21.50
Net Income (loss) (m)	-\$18.81

Key Ratios

(Net Cash) / Shareholder Equity %	-26.60%
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eGaming Sector Research

OSE Market Index

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Play Magnus Group

Core Investment Case

Play Magnus Group (OSE: PMG; OTCQX: PMGMF) is a Norway-based company providing computer chess games (entertainment) and chess learning (eLearning) services. Magnus Carlsen, the founder of PMG, is a chess grandmaster, five-time World Chess Champion. The company offers its entertainment and eLearning services via its brands: chess24, Chessable, iChess, New in Chess, CoChess, the Play Magnus App Suite, and Champions Chess Tour. As at YE21A, PMG had ~65k monthly paying users with a monthly ARPU of US\$21.9. Play Magnus AS was founded in 2013 and consolidated into Play Magnus Group in 2019 following the merger with chess24 (an Internet chess server providing gaming in 10 languages, including English).

- Market leading provider of chess eGaming and chess eLearning;
- Strong financial growth – 1Q22A revenues \$6.1m, up 32% y/y;
- Online chess mkt growing – bookings 1Q22A \$8.1m, up 53% y/y;
- Cash & CE at \$24.7m as of 31 Mar 2022 (1Q22A) – well funded.

US\$ (m)	MCAP	EV	RoA %	RoE %	NCO	Levered FCF
2022	62.70	45.30	-21.25%	-39.64%	-13.0	-8.0

Multiples	EV/ Revs	P/ S	Trail PE	BV/ Share	P/ B	Current
2022	2.11x	2.66x	N/A	0.69	1.56x	2.82x

Investment Case

PMG offers eGaming, eLearning and entertainment services for users to play, watch, and learn chess, and for professionals to teach and compete.

Strong growth company – In 4Q21A, bookings were \$7.1m, up 90% y/y, driven by the strong growth in eLearning and partnership revenues for the Champions Chess Tour. In 1Q22A, PMG had bookings of \$8.1m, up 53% y/y. The Group is targeting an adj. EBITDA break-even by FYE22E and positive EBITDA by 2023E.

\$100m bookings target by 2025E: Play Magnus guidance suggests the annual bookings run rate will reach US\$100m by 2025E, a **CAGR of 40%**. Guidance on monthly paying users suggests a target of 300k subs by 2025E, up ~5x versus 62.7k in 2021A. In the short-term, PMG will prioritize lowering its cost base to build the foundation for its long-term goals, i.e., 2025E growth targets.

Large online global market: ~ 650m people play chess regularly as per PMG's estimates. The chess market like many other markets is developing a significant online paying cohort. Play Magnus estimates that 70+m people have created an online account to play, watch, learn and engage with chess. PMG states that there were ~270m visits to the top 10 chess websites in January 2022 and ~140m hours of chess content was watched on Twitch in 2021. This is favorable data for the growth of the online chess market and so for Play Magnus given its large portfolio of online chess platforms.

Market leading brands show strong momentum: PMG is well positioned as a leader in the two most attractive segments of chess: esports (part of eGaming) and eLearning. Its esports arm boasts strong brands such as Champions Chess Tour, chess24 and Chessable. Champions Chess Tour is driving significant traffic to the PMG ecosystem, making PMG a vertically integrated chess play. The tour printed 115m live views on streaming platforms along with 30m hours of watched content in 2021. Chessable doubled its registered user base in 2021.

PMG's eLearning opportunity owns the largest library of chess courses, which it is currently digitising. PMG plans to enter the US education market, value \$2.3trn by 2022E up from \$1.1trn in 2020A).

Catalysts

Launch of new products and services; Signing new partnership for the Chess Tour; M&A; Penetration of US education market; Demand for esports and eLearning.

Operational Strategy

Play Magnus Group's (PMG) strategy is focused on three core areas: content, products & technologies, and geographic expansion.

Content – Play Magnus Group is aiming to establish content leadership in the chess market.

Organic content growth - PMG creates courses and videos on its eLearning platform Chessable. Chessable is mandated to increase the quantity and quality of its content catalogue. In order to achieve these increases, Chessable plans to hire individuals to assist with content creation and attract more original content authors.

M&A content growth - In addition to PMG's organic content growth efforts, we believe there remains a strong M&A content growth focus to expand the content library. PMG has already acquired leading chess publishers such as New In Chess (acquired in Feb 2021) and Everyman Chess (acquired in Mar 2021).

Investment in products and technologies – Play Magnus continues to invest in developing new products and service offerings across eLearning and entertainment.

In Jan 2021, PMG partnered with Meltwater (a UK media intelligence company) and launched the Meltwater Champions Chess Tour 2021 (MCCT 21). The tour was a 10-month series of 10 online tournaments played by the world's top players with a prize money pool of \$1.5m. We expect the MCCT to continue as an annual event and increase chess' appeal as a spectator esport.

In 2022, Play Magnus Group launched The Julius Baer Challengers Chess Tour – an event that brings together the top 20 emerging, talented and young male and female chess players. (Julius Baer is a Swiss private bank.) The Julius Baer tour also raises the standard of the user experience compared to other tours.

Geographic expansion – Play Magnus Group began trading on the OTCQX in Mar 2022, under the ticker PMGMF. PMG plans to expand into emerging markets that have a strong tradition of playing chess such as India.

Management Team

➤ **CEO, Andreas Thome.**



Andreas has been the CEO of Play Magnus for 3 years. Andreas has 15+ years' experience in business development, commercial strategy, IT management, software and telecom services. Prior to PMG, Andreas was the COO of Opera Software ASA – a Norwegian technology, web browser development and FinTech company. Andreas has an MSc in Finance from the University of York, UK and an MSc in Economics from the University of Oslo, Sweden.

➤ **CFO, Dmitri Shneider.**



Dmitri was appointed as the CFO of Play Magnus in 2020 and is COO of Chessable since Sep 2019. Before PMG, Dmitri was an Equity Strategy Executive Director at JP Morgan In New York and Hong Kong for ~12 years. Dmitri co-founded BGS Chess in 2005, an after-school program in Texas, USA and was an International Master of Chess for 17 years, a title he received at the age of 17. Dmitri has a BSc in Finance, and a minor in Economics from the University of Texas, Dallas, USA. He is a CFA charter holder.

Risks

Execution risk – The company’s success is dependent on the timely roll-out of its products and services and associated revenue generation. Any delays in the roll-out of new content, products and technologies could materially impact revenue growth and profitability.

Low subscriber ratio risk – Play Magnus is highly dependent on the successful conversion of followers to subscribers. The company assumes that it will be able to convert a certain percentage of visitors to subscribers. A lower than anticipated subscriber conversion ratio and an inability to attract followers could adversely impact the viability of the business model.

Funding risk – Play Magnus has an aggressive roll-out program that requires an ongoing supply of capital. If the company is unable to raise capital, it will adversely impact the timelines for its projects and so its valuation. In addition, raising equity at a lower prices will lead to dilution, while debt funding will increase interest costs and therefore erode cash flow margins.

M&A risk – Play Magnus lists M&A as a key part of its growth strategy. There is no certainty that the company will be able to find suitable acquisitions at favorable terms or be able to successfully integrate the acquisitions.

Personnel risk - Small and mid-sized companies are more dependent on their C-suite/executive management teams than large and mega-cap global companies. The loss of key personnel can have a disproportionate impact on valuation and investor perception compared to similar events at larger more mature (often ex-growth) companies.

Political risk – The Russia-Ukraine war is ongoing and chess is a sport heavily rooted in Russian culture. PMG is showing solidarity towards the Ukrainians - its Meltwater Champions Chess Tour 2022 does not have any Russian players and it has dedicated its fundraising from The Charity Cup (which began in Mar 2022) to victims of the war. Nevertheless, chess is a sport dominated by Russian players at this time – whilst organizations have distanced themselves, there is risk associated with the exclusion of talent pools and market development as a spectator sport.

Notes [Intentionally Blank]

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