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International Stock Market Weekly

Computer hardware/ Peripherals

Gaming ranks among the world's hottest businesses and growth sectors and the pandemic is like rocket fuel that continues propels this fast-growing business to new heights. This is evident in the numbers when looking at game developers, publishers, tool makers, PC and component builders, peripheral makers, and console manufacturers. Companies such as Nintendo (NTDOY.OTC), Logitech (LOGI.US), Sony (SNE.US), Razer (RAZFF.US), Take Two (TTWO.US), Microsoft (MSFT.US) have seen their share prices surge to record levels over the past year. As the popularity of gaming and streaming continues on their explosive growth path, casual gamers will continue to emulate pro gamers and streamers, and as such will become new customers in the fast-growing premium gaming and streaming market while simultaneously driving existing customers to improve their content quality and performance, which in turn will drive greater spending on the equipment which Corsair supplies.

While attention from investors has been focused on hot game developers and console makers, we believe there are overlooked opportunities in the game ecosystem which warrant attention for their investment potential. We previously recommended Logitech, which is up 27.4% since we published our December 11, 2020 report, however we now recommend investors to shift to Corsair Gaming (CRSR.US) as it is now the most attractive company in the sector, in our view.

The numbers bear our view out, Corsair's 4Q20 net revenue stood at USD556.3mn, up 70.4% YoY. Revenue growth was across the board with the gamer and creator segment posting an eye-watering 104% surge to USD191.8mn, and the components and systems segment jumping 56.8% to USD384.5mn. The bottom line was even more impressive, with adjusted earnings coming in at USD.53 per diluted share vs. USD.21 per diluted share in the previous year representing a 152% jump. These results crushed the Street estimates of USD.46/share on sales of USD528mn.

Stock pick for the third week of February

Corsair Gaming (CRSR.US)

Rationale

Corsair is the market leader in the red-hot eSports and streaming market and is capitalizing on its strong brand power and synergies among its business units.

Corsair Gaming is a computer peripherals and hardware company based in Fremont California and was founded in 1994. To date, the company has shipped nearly 200 million gaming and streaming products. The company has a dedicated customer base which it fostered by delivering innovative, high-quality products which are used by gamers around the world. In 2019, the global gaming PC and streaming markets, which includes peripherals, components, and game-specific PCs and notebooks, was valued at roughly USD36bn.

The growth of the video game industry over the past four decades followed a relatively predictable trajectory, posting a steady rise with the exception of the video game crash of 1983. Since the early part of the 2010s the hobby started its transition to the mainstream with the emergence of streaming platforms, which gave rise to a new type of gamer-focused celebrity in the form of the professional gamer and commentator. The increased activity of 'traditional' celebrities (i.e., movie stars, musicians, pro athletes, etc.) helped to further stimulate the rapid growth of the market. Then the pandemic hit, and the market exploded, with an expansion in viewers, gamers, and most importantly, sales, which hit astronomical new heights. Existing players are spending more time online watching and playing while new players are being brought into the fold from segments of the population which may have not been interested prior to the pandemic. People who had given up the hobby (i.e., outgrown), soon found themselves socializing online (e.g., with old college mates) as global lockdowns and social distancing requirements created demand for alternative channels to socialize.

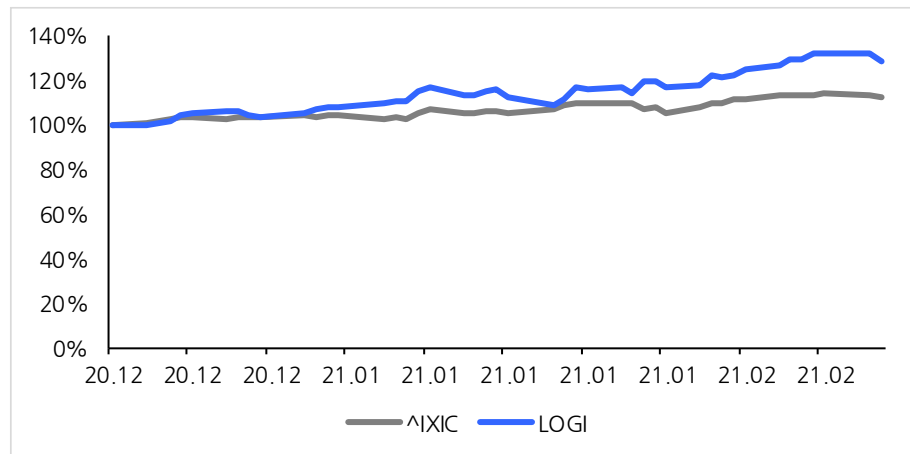
Corsair should continue to grow with the expansion of the market as these changes in gaming and streaming are part of a broader social change which will be part of the post-pandemic world. As a society, we have been conditioned to not only accept working, playing, and studying online, but indeed many prefer spending time in the digital realm. While people will eventually socialize in the physical world once the pandemic starts to subside, the social conditioning and resulting changes in our habits and interests means that gaming and streaming are not only here to stay but will continue to grow, supplanting other forms of entertainment.

Gaming is among the world's hottest businesses and growth sectors and the pandemic is like rocket fuel and is propelling this already fast-growing business to new heights. This is evident in the numbers when looking at game developers, publishers, tool makers, PC and component builders, peripheral makers, and console manufacturers. Companies such as Nintendo (OTC: NTDOY), Logitech (NASDAQ: LOGI), Sony (NASDAQ: SNE), Razer (OTC: RAZFF), Take Two (NASDAQ: TTWO), Microsoft (NASDAQ: MSFT) have seen their share prices surge to record levels over the past year. As the popularity of gaming and streaming continues its explosive growth, casual gamers will continue to emulate pro gamers and streamers, and as such will become new customers in the fast-growing premium gaming and streaming market while

simultaneously driving existing customers to improve their content quality and performance, which in turn will drive greater spending on the equipment which Corsair supplies.

While much attention from investors has been focused on hot game developers and console makers, we believe there are overlooked growth opportunities in gaming which make for promising investments. We previously recommended Logitech, which is up 27.4% since the publication of our December 11, 2020 report versus the broader Nasdaq's 12.64% rise in the same period. However, we now recommend investors to shift to Corsair as it is the most attractive company in the sector, in our view. Unlike Logitech, Corsair is laser-focused on the high-profit premium gaming and streaming market, which enjoy high barriers to entry. From PC components and peripherals to streaming equipment and smart ambient lighting, the company offers a range of products for content creators, gamers, and PC enthusiasts. Indeed, the company's business may be stronger than was revealed in its latest results as it faced challenges with meeting demand. In the 4Q20 earnings call, Corsair's CEO said that sales could have been much higher if the company could have manufactured and shipped more products and that near the end of the quarter it was able to restock retailers and saw its market share numbers rising in many categories.

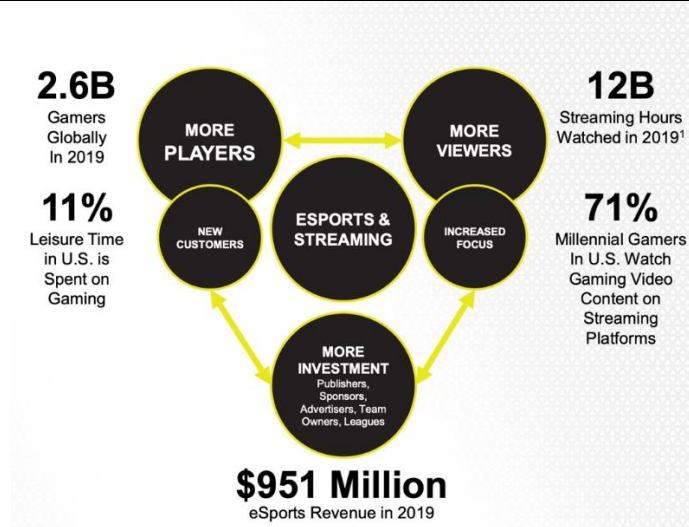
Fig 1. Logitech's relative return versus the Nasdaq



Source: Bloomberg, Hyundai Motor Securities

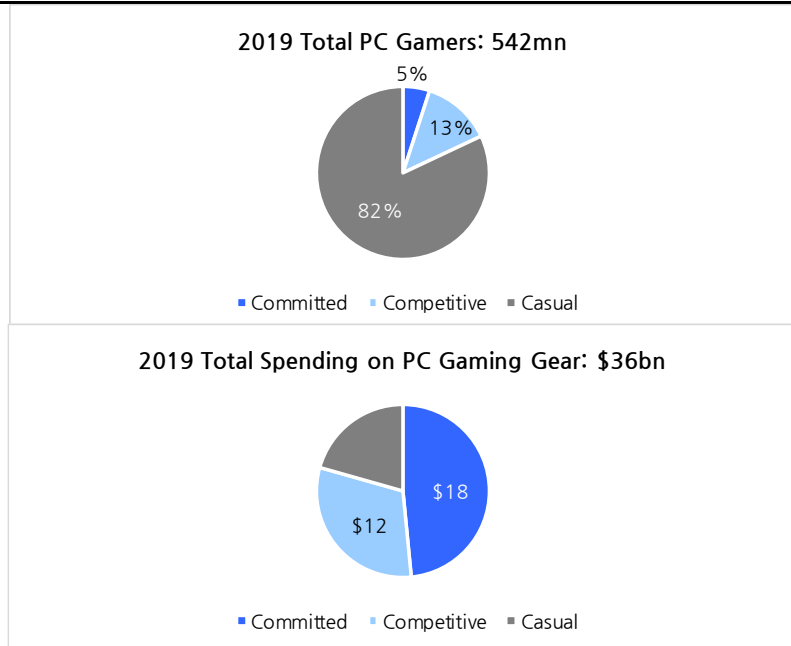
And the numbers bear this out, for Corsair's 4Q20 earnings, net revenue stood at USD556.3mn, up 70.4% YoY. Revenue growth was across the board with the gamer and creator segment posting an eye-watering 104% surge to USD191.8mn, and the components and systems segment jumping 56.8% to USD384.5mn. The bottom line was even more impressive with adjusted earnings coming in at USD.53 per diluted share vs. USD.21 per diluted year in the previous year, representing a 152% jump. These results crushed the Street estimates of USD.46/share on sales of USD528mn.

Fig 2. Esports +streaming, an investment and spending flywheel in gaming



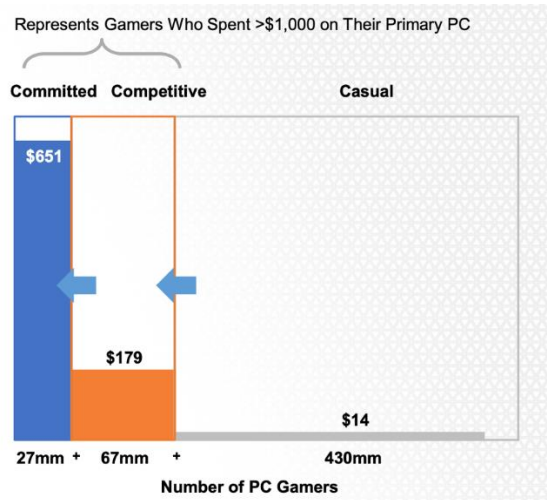
Source: Corsair Gaming, Hyundai Motor Securities

Fig 3. Large global PC gaming and streaming market with significant whitespace...



Source: Pew Research, Corsair Gaming, Hyundai Motor Securities

Fig 4. . . .resulting in significant whitespace



Source: Pew Research, Corsair Gaming, Hyundai Motor Securities

Name of the game

For some time, the PC industry was not of any interest to investors as global PC shipment volumes had seemingly plateaued and the industry's growth potential was in question. However, the onset of the COVID-19 pandemic created an environment which strengthened demand for PC products as more people use PCs to work, play, and study from home. And PC gaming has seen a record surge in popularity. Corsair is using this opportunity to rapidly expand its business.

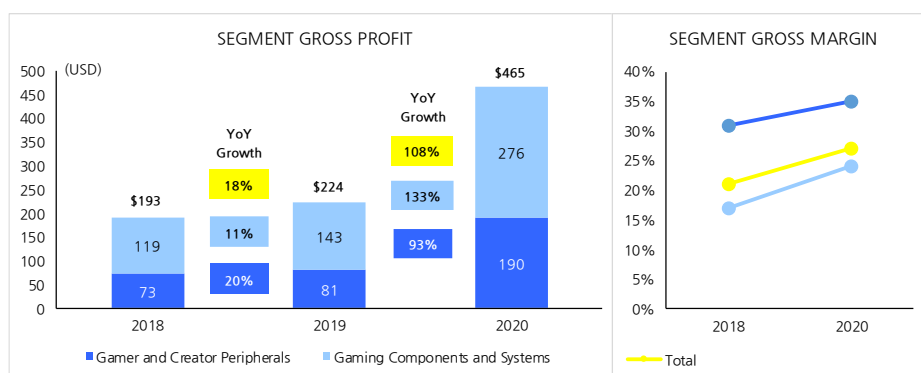
In the gaming peripheral space, there are but a handful of companies with the brand cachet to command the loyalty of gamers. Among the publicly traded companies, names include Razer, Logitech, and Corsair. While Razer went on buying and building binge which transformed the company from a simple PC peripheral comprehensive maker of gaming hardware. Corsair went public last September with an IPO price of USD17/share and has since more than doubled. The company is now on the path to become a powerful force in the gaming hardware world.

Corsair is the leading brand in gaming and the company provides the requisite hardware that gamers need to compete in esports and stream their gameplay. The market is highly competitive, but Corsair's consistent outstanding earnings results shows that the company has just started its journey to massive growth.

In 2019 alone, the company raked in a billion dollars and has a nearly 20% share of the US market for gaming peripherals and is approaching the 50% market in gaming PC components. The company holds leading market shares in high-performance computer memory, cases, power supplies, controllers and gaming keyboards, and is second in what it calls performance controllers and streaming gear.

Undoubtedly, the market is crowded, but Corsair already has a few decades under its belt and ranks in the top three in almost all of its product lines. This is evidence of the company's strong brand power, which is a critical advantage in the PC gaming accessories market. While brands such as Logitech, Razer, and others make quality products, gamers go for products they trust. And they trust Corsair more than any other brand, and the numbers bear this out.

Fig 5. Expanding gross margin in both segments



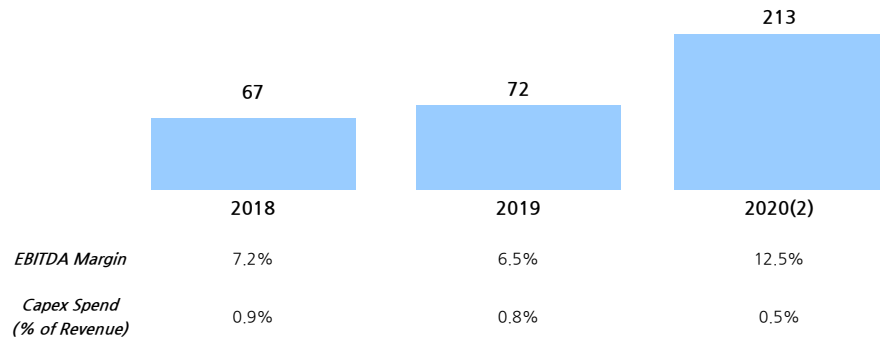
Source: Corsair Gaming, Hyundai Motor Securities

Fig 6. Record results in 2020

	Q4'20	Y/Y	2020	Y/Y
Net Revenue	\$556.3	70.4%	\$1,702.4	55.2%
Gross Profit	\$153.8	118.3%	\$465.4	107.5%
Gross Profit Margin	27.6%	600bps	27.3%	690 bps
Operating Income	\$58.9	314.2%	\$158.4	568.0%
Adjusted Operating Income	\$71.0	166.9%	\$204.8	211.4%
Net Income	\$43.0	616.0%	\$103.2	
Earnings per Share(diluted)	\$0.43	471.6%	\$1.14	
Adjusted Net Income	\$53.0	214.8%	\$145.0	427.0%
Adjusted Earnings per Share(diluted)	\$0.53	150.9%	\$1.60	354.5%
Adjusted EBITDA	72.5	154.7%	\$213.0	197.5%

Source: Corsair Gaming, Hyundai Motor Securities

Fig 7. Expanding EBITDA with low CAPEX



Source: Corsair Gaming, Hyundai Motor Securities

Democrats in control all but guarantees another round of stimulus payments. Gen Z and Millennials spend money on what they love, and they love video games.

Pandemic power up

With the Democrats in control of the Legislative and Executive branches of the US government, we will likely see another round of stimulus and perhaps other cash payouts in potential social welfare programs. Gen Z and Millennials, which make up the bulk of the gaming and streaming community will likely spend their stimulus payments when they receive them, and they will spend the money on things they love -- and they love games. Corsair has enjoyed double-digit revenue growth across almost all of its businesses and we expect this to continue over the foreseeable future.

Streamin' demon

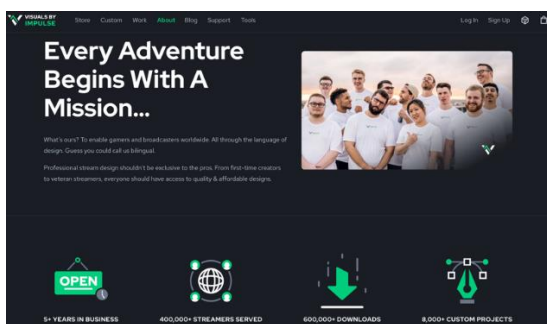
The manner in which streaming permanently altered the way in which movies and shows are consumed is now taking place in the video game industry. However, unlike the lower value movie business, the gaming industry's key advantage is that every gamer is able to purchase products and broadcast their activities on streaming platforms such as Google's (NASDAQ: GOOG) YouTube and Amazon's (NASDAQ: AMZN) Twitch to produce their own content and develop a following. Casual gamers now see the hobby as a way to socialize and engage with other viewers via messengers during broadcasts. Along with the growing number of casual gamers and viewers are a growing number of individuals aspiring to become professional streamers/gamers/content producers. And Corsair is better positioned than any other company to capture the lion's share of this skyrocketing market.

Even before the onset of the pandemic, live game streaming was a mainstream social network for millions of gamers. According to Nielsen, more than 70% of millennial gamers in the US view gaming content for around six hours per week and spent 12 billion hours watching gaming content on streaming platforms in 2019. And Corsair's consistent results bear this out with revenues surging on demand for

gaming and streaming products. In addition, millions of gamers regularly upgrade their gaming PCs with the latest components such as cooling systems, DRAM modules, and power supplies.

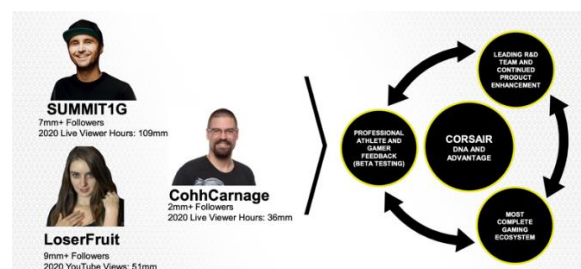
While the stock dipped on Feb 16, 2021 due to the news of its acquisition of streaming visuals company Visuals by Impulse (VBI), which it is organizing under its other streaming brand, Elgato. This purchase is part of a series of strategic acquisitions by the company to ensure dominance in the gaming and streaming businesses. The acquisition means that Corsair is now a one-stop shop for streaming products from the streaming PC to a suite of custom visuals.

Fig 8. VBI is the market leader in content by design visuals



Source: Corsair Gaming, VBI, Hyundai Motor Securities

Fig 9. Used, influenced, and tested by world’s most admired gamers and streamers



Source: Corsair Gaming, Hyundai Motor Securities

Just do it

Corsair’s approach to celebrity endorsement in eSports not unlike what Nike did with traditional sports decades back.

Professional gaming is also on steep growth trajectory and the explosion in live game streaming is giving rise to a generation of casual gamers wanting to up their game. And like any other sport, these would-be stars are seeking the help of trainers to provide them with the skills to play well. And Corsair has positioned itself to capitalize on this massive opportunity with the acquisition of Gamer Sensei, the leading eSports coaching platform. We believe this will evolve into a very large market which the company will benefit from with the cross selling of its products. In some ways, Corsair’s approach to the eSports business is not unlike the one which Nike (NYSE: NKE) took with traditional sports just prior to its explosive growth phase. While current valuations may appear at first glance to be on the higher end relative to competitors, they are not high given the company’s momentum and vast room for growth going forward.

On February 4, 2021 a jury unanimously found Valve guilty of willful infringement regarding the use of control surfaces on the Steam Controller and awarded Corsair a USD4mn award. While the amount of the award is insignificant, what is significant, in our view, is Corsair’s ability to identify and develop or acquire promising technologies/capabilities which define their respective categories in the gaming and streaming business. The controller systems developed by SCUF are used by Sony and Microsoft in addition to the illicitly produced version previously sold by Steam. Unlike other companies in the gaming hardware business, Corsair is laser-focused on gaming, eSports, and streaming and understands how these three

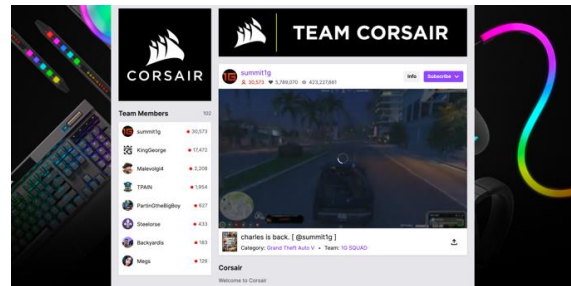
segments are independently profitable and relevant businesses, and in the bigger scheme of things, how the three work together to synergistically create exponential growth opportunities.

Fig 10. Corsair eSports teams



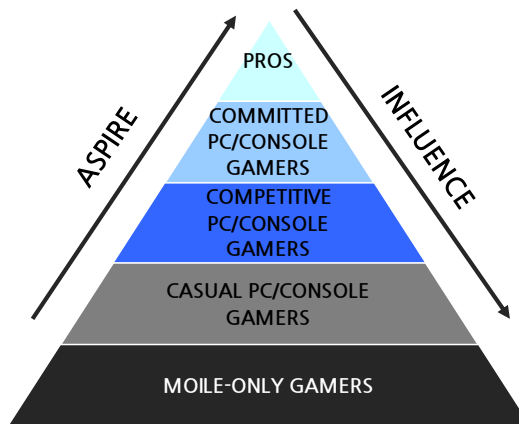
Source: Corsair Gaming, Hyundai Motor Securities

Fig 11. Team Corsair Twitch page



Source: Corsair Gaming, Hyundai Motor Securities

Fig 12. Competitive gaming and streaming drive spending on gear

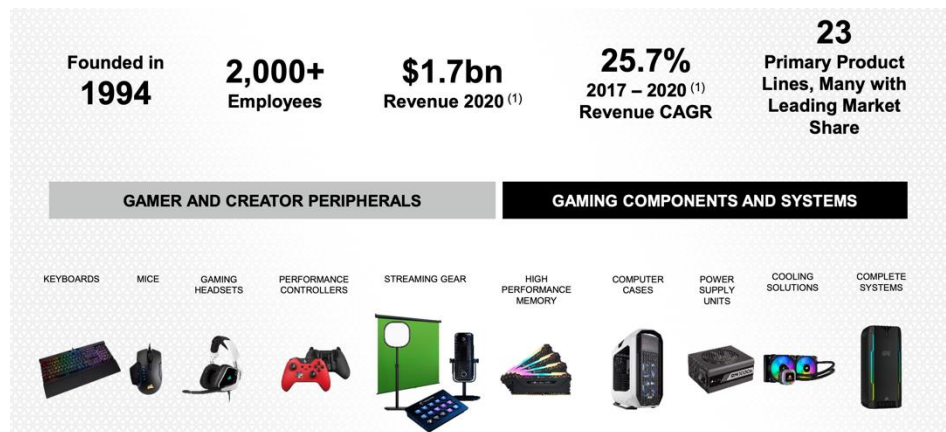


Source: Corsair Gaming, Hyundai Motor Securities

Game on

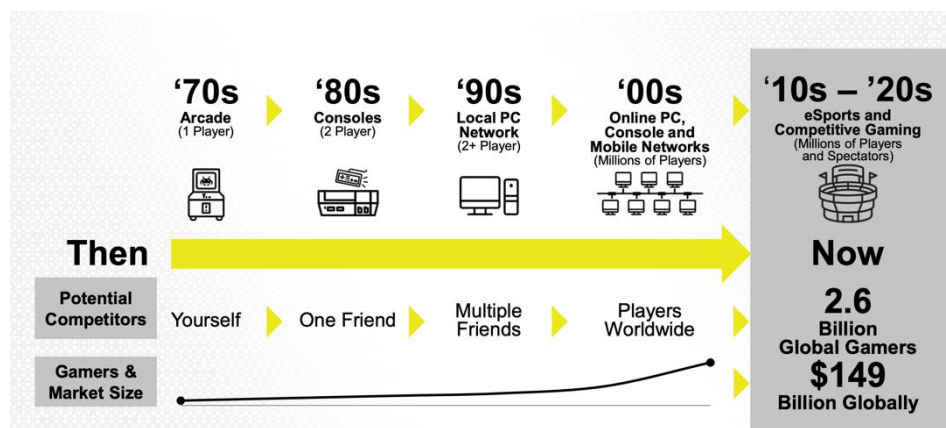
While Corsair is a new company on the Nasdaq, it has been in business for many years. Since its founding in 1994, it has shipped nearly 200mn gaming and streaming products to 75 countries across the globe—in other words Corsair has a very strong position in the market. More importantly, the gaming and streaming market is continuing to grow and along with it, Corsair’s business and stock price, which should see even brighter days ahead.

Fig 13. Gaming and streaming gear at scale



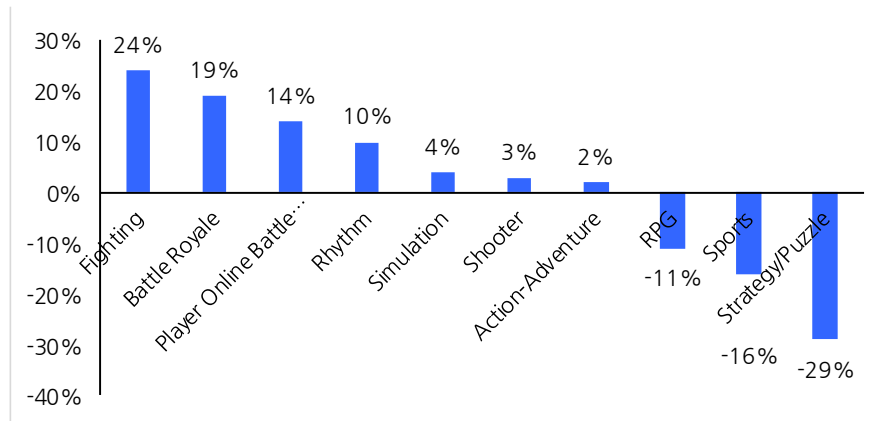
Source: Corsair Gaming, Hyundai Motor Securities

Fig 14. Gaming had rapidly grown and become mainstream



Source: Corsair Gaming, Hyundai Motor Securities

Fig 15. Growth in time spent playing video games in 2020 by genre as of June 2020 in the US



Source: Statista, Hyundai Motor Securities

Fig 16. Xbox Elite Scuf-licensed controller



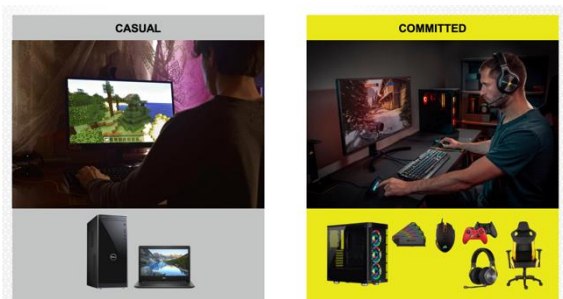
Source: Techspot, Microsoft, Hyundai Motor Securities

Fig 17. Valve Steam controller



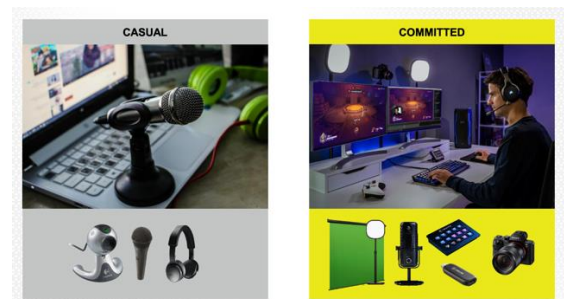
Source: Valve, Hyundai Motor Securities

Fig 18. Gaming gear upgrade path



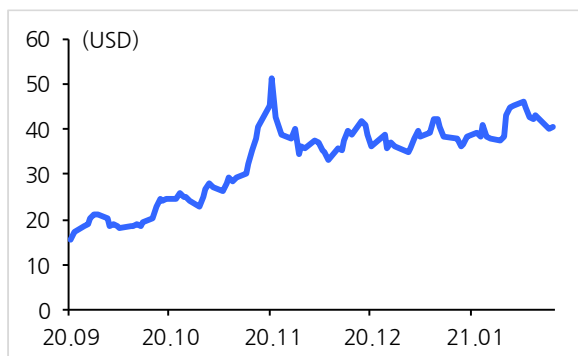
Source: Corsair Gaming, Hyundai Motor Securities

Fig 19. Streaming gear upgrade path



Source: Corsair Gaming, Hyundai Motor Securities

Fig 20. CRSR Stock Price



Source: Bloomberg, Hyundai Motor Securities

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Stock ratings distribution (January 1-December 31, 2020)

Rating	Count	% of rating category
BUY	145	89%
MARKETPERFORM	18	11%
SELL	0	0%

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