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NOVA – School of Business and Economics.

EQUITY RESEARCH - CORSAIR GAMING INC:
MAIN TRENDS AND ANALYSIS

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Abstract:

This equity research report aims at Corsair Gaming Inc. This report analyses the company and its strategy, while discussing its fit within the Gaming Components and Systems, and Gamer and Creator Peripherals industries, taking into consideration the valuation objective. A series of important trends are afterwards examined, as well as a peer financial analysis. Both chapters treat important determinants for the future of the company and most of its conclusions are used as drivers in the valuation.

Keywords: Valuation; Corsair Gaming; Computer Components; Computer Peripherals

This report is part of the Equity Research on Corsair Gaming report (annexed) and should be read as an integral part of it.

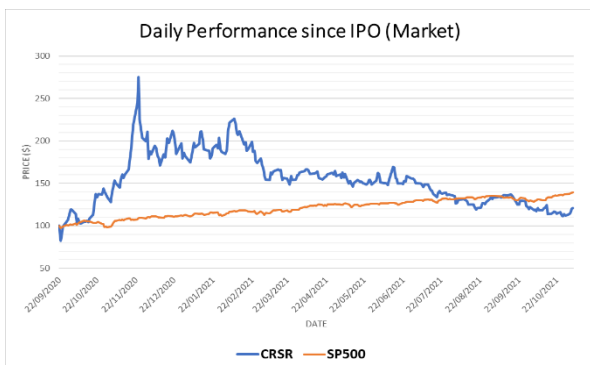
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Company Overview

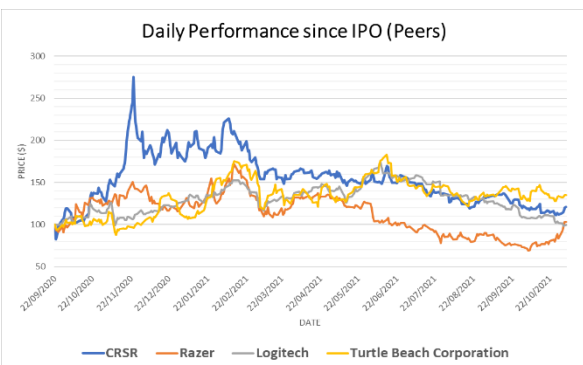
Shareholder Structure and Performance

Exhibit 3



Source: Bloomberg

Exhibit 4



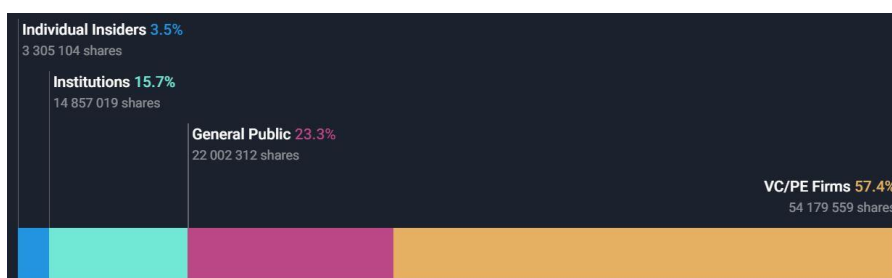
Source: Bloomberg

On August 28, 2017, Eagle Tree, an independent private equity, and investment firm acquired a majority stake in Corsair for approximately \$550 million. As of September 30, 2020, Eagle Tree held approximately 57.7% of Corsair’s common stock which gives them considerable control over the future of the company and any key policy decisions. New investors should pay attention to EagleTree behaviour regarding Corsair. The moment that EagleTree decides to exit the investment the main owner, share price and future ownership will have drastic changes, affecting the common shareholder.

Corsair went public on the 23rd of September of 2020, with its shares being listed on the Nasdaq Global Select Market at an initial offering price of \$17 per share. After the IPO, Corsair’s stock had a fantastic performance mainly fuelled by great earnings releases for Q3 and Q4 that positively surprised investors with better than expected revenue and profit numbers due to the Covid-19 pandemic. As global restrictions started to roll out, consumers with more free time and confined to their living spaces turned their spending to digital products. Demand for PC components and peripherals increased strongly which led Corsair and its competitors to enjoy greater sales. Within 3 months of the IPO, the company’s stock price reached a top of \$51.37 giving it a peak valuation of approximately \$4.6B. During these 3 months the stock outperformed the market, and its competitors as can be seen in

Exhibits 3 & 4, respectively. Since December 2020, the stock has been underperforming the market along with its competitors, this can be explained by some negative surprises on earnings as demand for products eased more than expected after the Covid-19 impact. Currently the company has a market valuation of approximately \$1.98B and has approximately 94.3M shares outstanding. Each ordinary share is entitled to one voting right on all matters on which stockholders are entitled to vote. As can be seen in **Exhibit 5**, 57.4% of shares are held by VC/PE firms, 23.3% by the general public, 15.7% by institutions and 3.5% by individual insiders.

Exhibit 5



Source: Company’s Report

The IPO & Institutional Ownership Risk

Three years after the Private Equity investment from EagleTree Capital, Corsair decided to

undertake an Initial Public Offering. In September 2020, the company issued 14 million shares of its common stock. It included 7.5 million shares from the company and 6.5 million shares from existing shareholders and would account approximately 15% of the company's stake. The share price would value all the company's equity at around 1.3 billion dollars, more than double the value of the Private Equity investment in 3 years.

The official document of the IPO revealed the use of proceedings for debt payments and afterwards the investment in developing working capital and general corporate purposes. A year later, we see that debt has been repaid and restructured, however, more than the use of the financing proceeds, we believe that other reasons led to the IPO.

Firstly, to allow founders and the Private Equity firm to cash out. Bloomberg data shows that since July, the ownership composition is changing with a 4% decrease in the participation of EagleTree Capital, something investors must keep an eye on.

Another big reason is the consequent reputation from the legal, accounting, and other requirements of a public company. This and the attention given to the company will attract analysts and potential investors but, most importantly, it will increase trust and confidence around the industry and the company, which will also ease future financing needs (debt or equity).

Moreover, the creation of public shares will also be useful for future M&A activity and stock-based compensation for employees.

From **Exhibit 5** we can observe that institutions do hold Corsair's shares which is a good sign overall. It means that analysts that work for these institutions had the company on their radar and they valued its potential which led them to include it in their portfolios. However, because institutions own a considerable number of shares, investors should be careful as the stock could become a "crowded trade". If something goes wrong multiple institutions may compete to sell the stock fast which exacerbates any negative sentiment.

According to company's filings Andrew Paul, the CEO, is the third largest shareholder with a 2.7% ownership. This is a good sign for investor and confirms that there is an alignment of interest between management and shareholders.

Industry Overview

Despite the variety of Corsair's products and services, it clearly fits in the two following industries: gaming computers and components and gaming/streaming peripherals. The company's focus shows its full commitment towards gamers, streamers, and enthusiasts.

It is important to take a closer look at the gaming industry in general and afterwards understand the main trends and determinants of the industry so we can find what drives this sector. This

chapter will introduce us to the industry's recent context while the following will characterize future trends.

The Gaming Industry

In the 1970 decade, the video-game industry saw its rise and development mainly through arcade and the initial console gaming. Further development and massification of Personal Computers and Consoles led a revolution of gaming, offering people the ability to play at home since the 2000s. Since then, the industry has been growing a lot and currently in 2021, the combined gaming industry is estimated to account for 178B\$

Exhibit 7

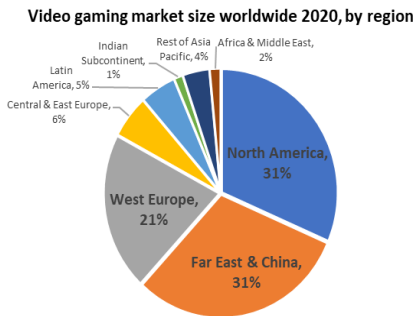
Video gaming market size worldwide 2020-2025
(M\$)



Source: Juniper Research (31/05/2021)

of revenues. It is predicted to continue to grow for the following 4 years, with a predicted total revenue of 269B\$ in 2025, as seen in **Exhibit 7**, derived from a report from Juniper Research¹. This growth represents a CAGR of 11.5%.

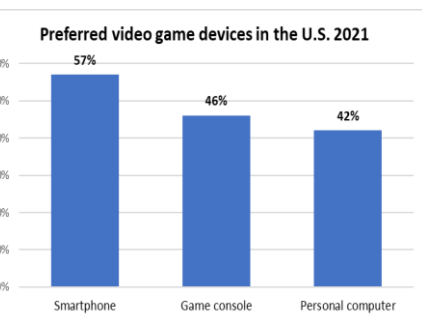
Exhibit 8



The geographic breakdown in **Exhibit 8** reveals two major takeaways of the industry. Firstly, the gaming industry has a higher stake of consumers in developed regions such as North America, Far East & China, and Western Europe, which makes sense knowing we are referring to an expensive kind of entertainment. The rising share of the Far East Asiatic and Chinese market segment show the dominant position they take and huge potential in the region.

The rising number of gamers can still be divided according to the platform they use: a smartphone, a console, or a personal computer. Each of these have its uniqueness and distinctive business model as well as ways of interacting with consumers, suppliers, and other stakeholders. Although Corsair also benefits from console gaming, its activity is mostly related to computer gaming as most of their products are associated with high performance computer experience.

Exhibit 9

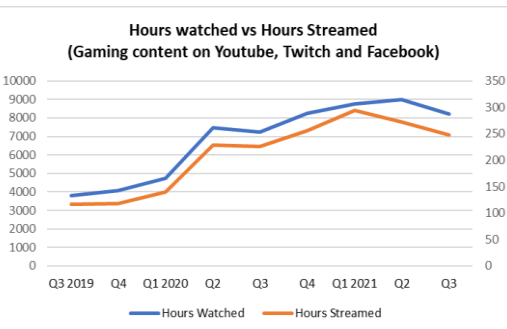


When looking at the industry figures, we see that the massification and rapid development of smartphones led to the main role it takes today within the gaming sector. Among gamers, in a recent survey conducted by the Entertainment Software Association², 57% played on their smartphones, while 46% and 42% played on their console and PC, respectively, **Exhibit 9**. This figure will be discussed in the following chapters because, although it is informative for the whole industry, it does not represent a more committed type of gaming (such as esports and streaming), yet it represents some competition risks also discussed later.

The Covid aftermath & Logistics Crisis

The last two years were highly impactful for the industry as lockdowns provoked a huge boom in the industry. Research from Nielsen³ showed that 82% of global consumers played video games and watched video game content during the height of lockdowns. From these so called new “pandemic gamers”, 27.5% turned into paying users according to another study from Unity⁴. The challenge now is to predict how the industry will react after Covid. Will players continue to play as much as they did in 2020? Will eSports and streaming as an entertainment business return to pre-pandemic values as in-person entertainment starts to re-open?

Exhibit 10



The latest data on streaming gaming content, for example, shows a slight decline in the last quarter but it is insignificant in relation to the growth seen during the pandemic, as seen in **Exhibit 10**. At the same time, two major esports tournaments (the Worlds 2021 and PGL Major) broke records in terms of viewership already in November⁵. It is predicted that the growth continues until the second quarter of 2022, then we will be able to see the combined factors of the end of covid restrictions and the summer arriving. That period will test how

Source: Streamlabs and Stream Hatchet

¹ Juniper Research, “Global video game market value from 2020 to 2025”,

² Entertainment Software Association, “2021 Essential Facts About The Gaming Industry” <https://www.theesa.com/wp-content/uploads/2021/08/2021-Essential-Facts-About-the-Video-Game-Industry-1.pdf>

³ Nielsen, “3, 2, 1 Go! Video Gaming is at an All-Time High During COVID-19”, 06-03-2021

⁴ Unity, “Covid-19’s impact on the gaming industry: 19 takeaways”

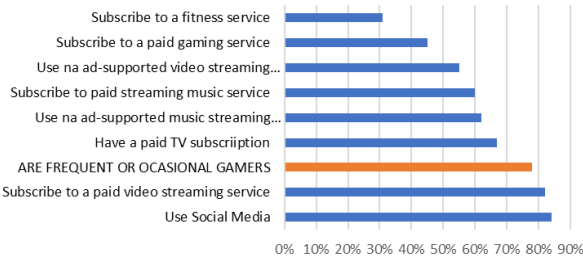
⁵ Zucker, Coby, “PGL Major grand finals shatters CS:GO viewer record”, Upcomer 07-11-2021

Borisov, Alexey, “Edward Gaming broke the curse while Worlds 2021 broke viewership records on Twitch and in esports”, Esports Charts, 07-11-2021

attached these new consumers became.

Exhibit 11

Digital Media Trends (2021)
Percentage of respondents who

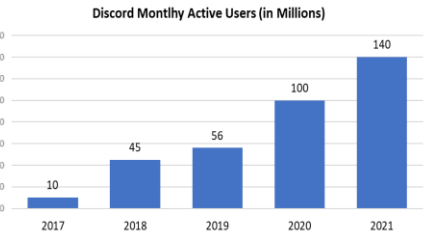


Source: Streamlabs and Stream Hatchet

third most frequent activity very close to using social media and subscribing to a streaming service.

Nonetheless, it is believed that Covid had a more persistent impact, and the industry will continue to grow at similar rates than the ones before. There are several reasons for that. Firstly, gaming is a very enticing activity which causes consumers to rapidly consume after the first tries. Secondly, and recalling the Nielsen study, gaming was consumed by a vast majority of the population during the pandemic. This reinforced the perception that gaming is no longer a niche activity but rather a more mainstream one, mainly within younger generations. As seen in the 2021 Digital Media Trends report from Deloitte, where 78% of respondents assume to be frequent or occasional gamers (**Exhibit 11**), which is the

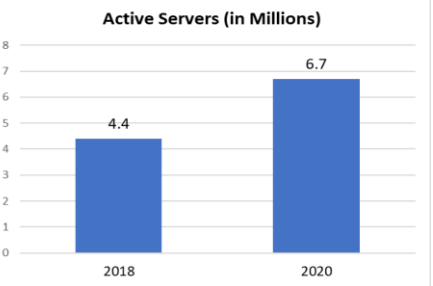
Exhibit 12



Source: Business of Apps

The other aspect is that this hobby is prone to the creation of online communities, teams, and personal relations. This increasingly human connection gives incentives for people to continue gaming and consuming. It is something reported by BBC in the article “How online gaming has become a social lifeline”⁶ during the pandemic and also registered in Discord statistics⁷. Discord is the main online communication platform within gamers and streamers and is where those communities are based. The increased number of active users (**Exhibit 12**) as well as the increase in active servers (**Exhibit 13**) describe this community creation.

Exhibit 13



Source: Business of Apps

Another issue from the aftermath of the pandemic times is the logistic crisis. A surge in demand led to an imbalance with supply, this led to a high increase in freight costs. This is already impacting Corsair’s gross margins as many shipments are getting more expensive and inputs unavailable. Recurrent spikes in Covid cases have significantly affected the chip production due to temporary factory closures. This resulted in shortages of certain products including electronic chips. The consequent increase in prices for main components, such as GPUs and CPUs, is also repelling potential consumers from building their PCs. This pent-up demand for building high performance gaming computers will be released as the logistics crisis eases and prices of these components return to more affordable levels. In the short term, Corsair’s performance will be dependent on the accumulated inventory and ability to absorb higher distribution costs.

Main Trends and Determinants

Esports and Streaming

The Esports and streaming industries are very important for the computer components and peripherals market, such that it is not uncommon to observe such companies sponsoring and promoting streamers, teams, and competitions. These activities are seen as the professionalization of such leisure activities and the time spent, dedication and financial compensation they get out of gaming enables a higher commitment and higher willingness to

⁶ Lufkin, Bryan, “How online gaming has become a social lifeline”, The Life Project, 16-12-2020

⁷ Curry, David, [Discord Revenue and Usage Statistics \(2021\)](#), Business of Apps, 12-11-2021

consume the premium performance, quality, and comfort that Corsair's products offer.

Exhibit 14

TOP 5 NETFLIX FILMS VS. TOP 5 LIVE STREAMING GAMES



Source: Streamlabs and Stream Hatchet

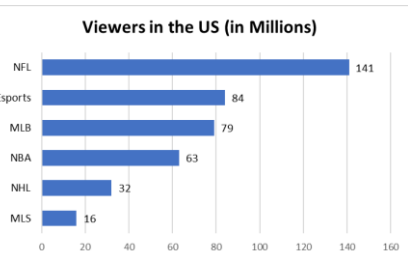
Regarding this high-level gaming, computers continue to be the main platform due to three factors according to a recent MarketLine study: the superior control of game mechanics with a mouse and keyboard, the ability to customize components and the popularity of PC-based games; to which we could add the ease to record and broadcast online.

Both activities have grown rapidly in recent years and already have a huge share within the home entertainment business. To put it in perspective, a comparison made by Stream Hatchet shows that some game categories have as many hours watched as the most popular Netflix series in September 2021 (**Exhibit 14**).

Corsair and its peers have had an important role on these impressive indicators due to the increased quality and comfort of gaming, streaming, and watching. Nevertheless, the industry must continue to answer to these consumer needs by creating and updating games that are enticing to play and watch, and, at the same time, taking special attention to new trends like “Just Chatting”, “Sports” and other types of content that substitute other home entertainment and media activities.

It is an industry that has been growing not only in terms of people involved and revenue, but also in terms of money invested and companies taking close attention to it. The study “The rise of eSports investments” from Deloitte reports that even before 2020, the industry was raising investments from venture capital firms, wealthy individuals but also private equity. The investment made went from 490m in 2017 to 4.5B\$ in 2018. This indicates the higher confidence that investors have in such markets.

Exhibit 15



Source: Syracuse University

This confidence is expected when we already witness the competition that esports are creating to the Sports Entertainment business today, seen in **Exhibit 15** where esports viewership is compared to the major sports leagues in the US. On a more futuristic perspective, it is expected that eSports will bear a resemblance to today's sports business, by being driven by big competitions, by highlighting outstanding players and by having all the linked activities such as esports live events, franchising teams, and esports betting. In this perspective Corsair can become the Nike or Adidas of the industry. Both focusing on the premium products essential for high-level athletes while at the same time selling to fans and aspirant gamers.

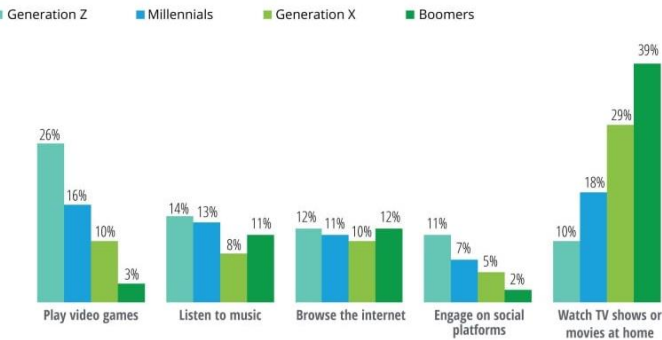
Consumer Trends: Age and Expenditure

The consumer habits of the industry have been shifting. Besides the increased number of players, two important statistics reveal the evolution of the markets: the age distribution of US gamers and the increase in the money they spend on average.

Exhibit 16

Generation Z may not be “video first”

Respondents across generations ranked their favorite entertainment activity

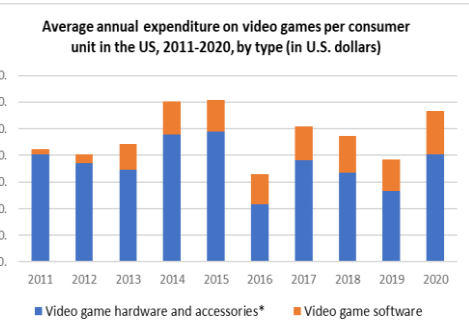


Source: Deloitte – Digital Media Trends, 15th edition

The ESA survey reveals a very young population of around 31 years old and the two biggest age groups are 18-34 (38%) and under 18 years (20%)⁸. It demonstrates the growth potential of the market when this client segment gets older and has more disposable income to spend on gaming. At the same time the beforementioned Deloitte report⁹ shows us the preference that the younger generation gives to gaming compared to the other entertainment activities, also shown in **Exhibit 16**. This reveals a profound difference when compared to other age groups and indicates a cultural shift in the entertainment business in the future.

Companies like Corsair will be well positioned to take advantage of the effect that youngsters prefer gaming, since the increased disposable income will make them purchase more of Corsair’s premium priced products.

Exhibit 17



Source: Bureau of Labor Statistics

Regarding the amount of money spent on gaming, the US Bureau of Labour Statistics reports an annual average expenditure of \$56.61, by each American consumer on gaming. We can see that the total has been increasing and approximately 70% of spending in gaming goes to hardware and accessories (**Exhibit 17**). It is noticeable that the average consumption did not dilute, which would be expected with the introduction of new gamers. Showing again the effect mentioned in the previous chapter that new gamers will continue to play after the end of lockdowns.

Cloud Gaming and VR

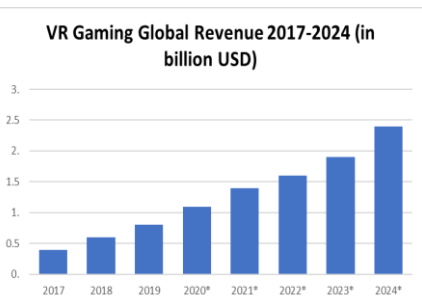
Another important determinant is the long-term future of gaming. Two major trends seem to determine how people will play video games in 10 years time: Cloud Computing Gaming and Virtual Reality.

Cloud Gaming is an innovative way to play games through a remote server and streams it to the client device. In other words, it is a way to play games that need higher computational requirements in simpler devices such as computers and laptops. Since it decreases the computer performance needs one may claim that it threatens Corsair’s Computer Components Segment. However, this is not the case since it is still a hardly implemented business model as it faces many challenges like exceptional internet connection requirements¹⁰. Moreover, the company’s focus on premium products shows that Corsair answers the consumers’ needs on prime gaming experience which cannot be delivered by Cloud Gaming. Anyway, this trend seems to present an

ambiguous value addition since the beforementioned possible threats can be offset by value added of the fact that Cloud Gaming can be an easy introduction to new gamers and the increase in demand for Peripherals.

Virtual Reality Gaming demand has been increasing and it is expected continue as seen in **Exhibit 18**. This trend shows the gamers pursuit of an engaging and immersive kind of gaming which requires more advanced peripherals as well as good computer performance. With this, if VR becomes the norm and a driver for the long-term Gaming

Exhibit 18



Source: PwC

⁸ Entertainment Software Association, “2020 Essential Facts About the video Game Industry”
⁹ Westcott, Kevin; Arbanas Jana; Downs, Kevin; Arkenberg, Chris; Jarvis David, “Digital media trends. 15th edition”, Deloitte
¹⁰ Hollister, Sean, “To succeed, Cloud Gaming needs to disappear.”, The Verge

industry, it is essential that Corsair can adapt and develop products aligned with this trend as it will affect revenues and Product Development costs and ultimately the company's value.

China Legislation

On the negative note, China, an important client segment, is imposing legislation to limit young gamers time participation in online videogames and streaming. More specifically, it limits under 18s from playing video games more than 3 hours a week. This is a serious risk for Corsair as it could seriously harm the revenues directly in the next years but also in the future due to cultural changes it might provoke¹¹. There are some questions raised about the real effectiveness of those measures and ways teens are getting around those laws, besides the actual cultural shock. The SupChina online newspaper describes that most of youngsters find them turning into videogame watching or finding ways to play more as an under 18.¹²

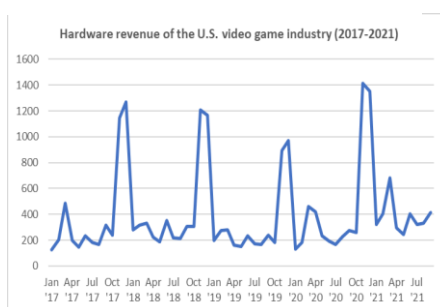
Nevertheless, this topic will be measured later on the Scenario Analysis chapter, where that impact in Corsair's stock value will be measured.

Other Trends and Determinants

Besides the main trends there are also some less impactful trends and determinants that investors should keep in mind to have a more complete view of the company and its future. They might not be major drivers for the industry as a whole but might affect Corsair's value. These include the seasonality of sales, and two other trends that highlight one of Corsair's major risks, the dependency on videogame developers. Those are the change in the game development business model and the preponderance of smartphones in the gaming market.

Seasonality

Exhibit 19



Source: PwC

Seasonality is a key determinant in this industry. Most of the revenues arrive in the first and last quarters of the year motivated by high consumption periods (Christmas and Thanksgiving days), but also due to the weather factor in the northern hemisphere as seen in **Exhibit 19**¹³. This trend threatens the company's efficiency since a bigger infrastructure is needed to meet those demand spikes. Such infrastructure is unsuitable during lower demand periods. Being able to smoothen demand is important and will be reflected in the company's revenues and value creation.

Game Development Business Model

The game development business model is changing according to some trends. The free entry game (with other means of revenue, such as Fortnite and Valorant) are getting more and more popular. These decrease the barriers to enter gaming and frees up more money for spending in other products. It is a trend that increases Corsair penetration rate and disposable income of consumers for Corsair products. Ultimately, increasing revenues and adding value to Corsair.

¹¹ Buckley, Chris, "China Tightens Limits for Young Online Gamers and Bans School Night Play", The New York Times

¹² Feng, Jiayun "After video game ban, Chinese kids turn to Douyin and livestreaming gamers", SupChina

¹³ NPD Group, Venture Beat, "Hardware revenue of the U.S. video game industry from January 2017 to September 2021"

Smartphone gaming

There are also other trends to pay attention to like the rise in mobile gaming, which takes the majority of revenues and might steal some market share and investment from PC gaming. It is important that Corsair and its peers continue to make PC gaming more enticing and interesting than mobile gaming, so that there is no resemblance between the two. This way, there should be no substitution from PC gaming to the mobile one. But the price accessibility is important so that the opposite substitution happens.

It is a trend that seems to have low impact on Corsair's value since we are talking about distinctive types of gaming. However, and due to the dependency of game developers, if it is proven that mobile gaming is more profitable than the PC one, it might happen that most game developers will focus on the first one leaving the second one with lower public interest and so impacting Corsair.

Analysis

The Peripherals and Components environment

To better analyse how Corsair fits in its industry, we will see it in the context of the Peripherals and Components environment. There are 3 publicly traded peers which will be used for comparison: Razer, Logitech and Turtle Beach Corporation. The choice of these companies is explained by the similar business model and product offer, while having global operations. All three focus on their product development and strong brand building.

Logitech, which is public since 1997, differs slightly as it has a lower-end scope, lower price and simpler products. It does not focus solely on gaming, which represents approximately 20% of revenues, but also in more general products.

Financial Metrics

Exhibit 20

| CRSR | 2020 | 2019 | 2018 |
|-----------------------------------|------------|-----------|-----------|
| Cash Conversion Cycle | 41 | 54 | 45 |
| Current Ratio | 1,37 | 1,43 | 1,44 |
| Cash Ratio | 0,26 | 0,16 | 0,12 |
| Gross Margin | 0,27 | 0,20 | 0,21 |
| Return on Assets | 0,12 | 0,02 | 0,03 |
| Asset Turnover (Invested Capital) | 4,49 | 2,89 | 2,68 |
| Debt-to-Equity | 60% | 224% | 258% |
| Core ROIC | 34% | 5% | 6% |

Source: Analyst's Analysis

Exhibit 21

| Comparison | CRSR | Razer | LOGI | Turtle B.C. | Average |
|----------------------------|------------|------------|-------------|-------------|------------|
| Cash Conversion Cycle | 41 | -97 | 22 | 91 | 14 |
| Current Ratio | 1,37 | 1,68 | 1,88 | 2,16 | 1,77 |
| Cash Ratio | 0,26 | 1,00 | 1,04 | 0,59 | 0,72 |
| Gross Margin | 0,27 | 0,22 | 0,44 | 0,37 | 0,33 |
| Return on Assets | 0,12 | -0,01 | 0,28 | 0,24 | 0,16 |
| ROE | 0,24 | 0,01 | 0,42 | 0,34 | 0,25 |
| Asset Turnover (Invested C | 4,49 | -11,66 | 13,37 | 5,43 | 2,91 |
| Debt-to-Equity | 60% | -95% | -70% | -27% | -33% |
| ROIC | 34% | -2% | 254% | 58% | 86% |

Source: Analyst's Analysis

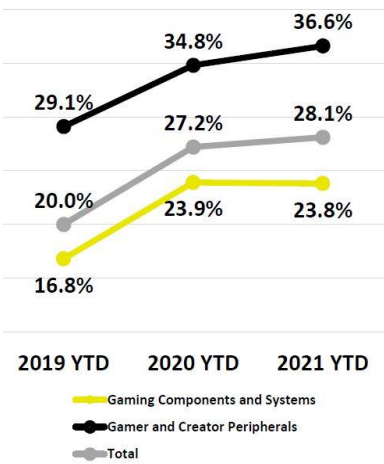
When comparing Corsair Gaming to its competitors regarding key financial metrics we can determine its position in the marketplace more accurately, **Exhibits 20 & 21**. At first, we analyse the cash conversion cycle (CCC). Corsair's competitors' values are very dispersed given their different conditions and relationship with suppliers and customers.

The most efficient company is Razer with a negative CCC which essentially means that their suppliers finance their operations, they managed to achieve such a result through a very high payable period. Turtle B.C. is on the opposing end of the spectrum with the highest CCC which raises some risks to their operations. CRSR has a net trade cycle of 41 days which means that the company takes 41 days to turn its operations into cash. The company showed some improvement by reducing the cycle from 2019 to 2020 which is a good trend if it can be maintained, given that it reduces the pressure to hold debt. Nonetheless it is our belief that the company will likely maintain a similar level of the

CCC in the future. Its main distributors include large players in the industry such as Amazon, Best Buy, JD.com, etc., who have large bargaining power and are not likely to change their conditions

Exhibit 22

SEGMENT GROSS MARGIN



Source: Companies' Reports

materially in Corsair's favour.

Looking at the liquidity ratios such as Current and Cash ratios we can see that Corsair falls behind its competitors in covering its current liabilities with current assets. This is particularly noticeable in the Cash Ratio of 0.26 while Current Ratio is 1.37 this indicates that the company is highly dependent on being able to quickly execute its current assets such as inventories and receivables to cover its current liabilities, which indicates a higher executional risk. Although there has been improvement in the Cash Ratio from 2018 to 2020 (0.12 to 0.26) the company remains far from eliminating this risk. With the forecasted increase in profitability in the following years, Corsair is set to improve these ratios and achieve a more stable position. According to forecasts of other captions the company will reach a 1.6 Current Ratio by 2024 and a 0.6 Cash Ratio by 2030.

Looking at the Gross Margin the company has made good progress at increasing its efficiency from 2018 to 2020, from 21% to 27%. However, it is performing slightly below the industry average of 33%. As stated before, Corsair operates in two segments: Gamer and Creator Peripherals (GCP) and Gaming Components and Systems (GCS). As can be seen from **Exhibit 22**, GCP has a greater gross margin of 36.6% than the GCS segment at 23.8%, at the same time, sales from GCP have been growing more than from GCS, seen in **Exhibit 23**. As can be seen in **Exhibit 24** the company has been shifting its product mix toward higher margin GCP segment, a trend that is forecasted to continue into the future leading the company to a 30% margin in 2027.

When it comes to the firm's efficiency of turning assets to operational result (ROA), once again Corsair falls slightly below the industry's average, 12% vs 16%, respectively. This measure also saw improvement in 2020 relatively to 2019 but still indicates a lower efficiency in managing its resources compared to peers.

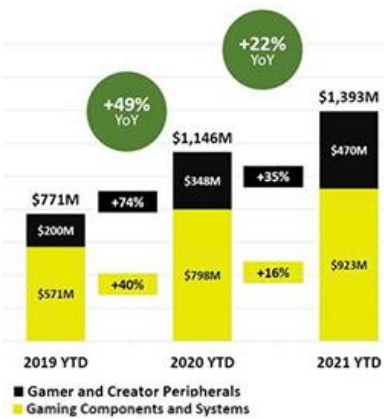
From a Return on Equity (ROE) perspective, Corsair is generating value for its investors because the ROE is 24% which it is higher than the opportunity cost of equity of 8.4%. It is very close to the peer group average value of 25% and slightly further away from the industry average of 29%¹⁴. However, two of its competitors Logitech and Turtle B.C. provide a much better return for its investors, 42% and 33% respectively, and thus investors will have a higher incentive to invest in them from this perspective. Despite having a good overall ROE, Corsair is the laggard in its industry which could be one of the reasons for the poor stock performance in the last months.

The company is better than the industry average in turning core invested capital into sales as can be seen by the Asset Turnover ratio of 4.49 vs 2.91. Combining both Return on Assets and Asset Turnover (Core Invested Capital) we can see that the business is effective in generating revenue but lacks behind in efficiency of operations which is further supported by the Gross Margin overview.

When computing the Core ROIC of the companies we are left with a wide range of values which may be hard to interpret into an industry average for meaningful analysis. The computer peripherals and components industry is characterized by high ROIC values due to relevant and hard to attain intellectual property rights that create barriers to entry. High barriers to entry keep

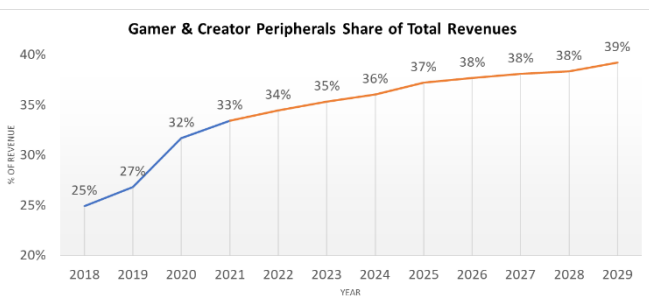
Exhibit 23

REVENUE DATA BY SEGMENT



Source: Companies' Reports

Exhibit 24



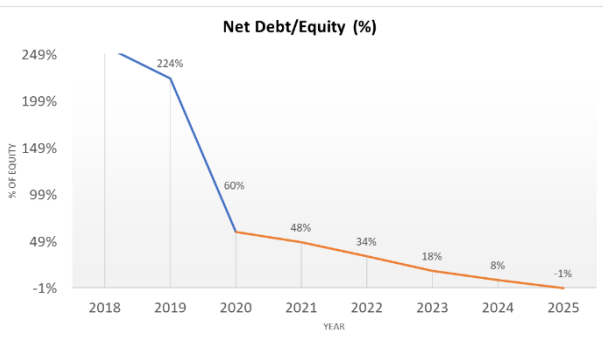
Source: Analyst's Forecast

¹⁴ Damodaran, Aswath, [Return on Equity \(nyu.edu\)](https://www.nyu.edu/~damodaran/return-on-equity/) (updated in January 2021)

other competitors from entering and allow for a higher ROIC. This can be seen as a competitive advantage that is available to all industry occupants and consequently not a sustainable one. The above analysed ROE is a better metric of performance for comparisons intra-industry.

Finally, when analysing leverage, it becomes evident that Corsair Gaming at the moment has a much higher Net Debt-to-Equity ratio than its competitors, 60% vs a negative industry average of

Exhibit 25



Source: Analyst's Forecast

-33%. The company has been committed to reduce this measure of leverage. Recently it refinanced its debt by reducing the face value from \$272M to \$250M and secured a lower interest rate on this debt allowing it to cut interest rate costs by \$2M per quarter. It has also increased its credit line from \$50M to \$100M providing it with greater flexibility. We believe the company will be able to execute its commitment to reduce indebtedness and forecast a convergence to industry values, **Exhibit 25**. From 2025 onwards, Net Debt to Equity ratio is expected to turn negative as the firm is forecasted to have enough excess cash reserves to offset the remaining debt.

Cost Structure Comparison

- Product Development Costs

Exhibit 26

| Product Development (% of Revenue) | 2020 | 2019 | 2018 |
|------------------------------------|------|------|------|
| CRSR | 3% | 3% | 3% |
| Razer | 4% | 6% | 11% |
| LOGI | 4% | 6% | 6% |
| Turtle B.C. | 3% | 3% | 2% |
| Average | 4% | 5% | 5% |

Source: Companies' Reports

When analysing the product development costs as a percentage of Revenues of Corsair and its competitors in **Exhibit 26** we can see that there is some margin for improvement specially if the company wants to keep gaining market share. Percentagewise, the relative weight of this expense in Corsair's accounts has been stable at 3% however given that revenues have grown the absolute expenditure increased. Contrary to Corsair, some of its competitors, namely Razer and Logitech have decreased the percentage share of product development costs of revenues. Although revenues have grown, the relative amount decreased and means there is less intent to invest. This is good news for Corsair as it may capitalize on this phenomenon to capture more market share, increasing expenditure on Product Development according to its strategy. The model foresees an increase in this ratio to 5.5% by 2028. Turtle B.C. which is also a company in its infancy has been slowly increasing its PD expense in relative and absolute terms. Corsair should notice these moves and respond accordingly.

- Selling, General and Administrative Costs

Exhibit 27

| SG&A (% of Revenue) | 2020 | 2019 | 2018 |
|---------------------|------|------|------|
| CRSR | 15% | 15% | 15% |
| Razer | 18% | 25% | 27% |
| LOGI | 18% | 21% | 21% |
| Turtle B.C. | 20% | 26% | 17% |

Source: Companies' Reports

Corsair has maintained the same expense on SG&A relative to Revenues over the last three years at 15%, **Exhibit 27**. At the same time, competitors such as Razer and Logitech have seen their SG&A costs decrease in relative weight to revenues over the last three years, this trend is especially noticeable at Razer. We may infer that these companies are potentially taking advantage of economies of scale. Turtle B.C. another competitor of Corsair has its values varying a lot in the past three years. Currently, Corsair is below the industry's average regarding this expense in relative terms which could showcase some efficiency in operations but may not be sustainable for the future competitive landscape.

