Origo Capital AB
Birger Jarlsgatan 18, 2nd Floor
114 34 Stockholm, Sweden

ORIGO CAPITAL

September 26, 2018

Board of Directors

Cherry AB

Stureplan 19

111 45, Stockholm

<u>Subject</u>: Time to unlock shareholder value in Cherry!

Dear Members of the Board,

Origo Capital ("Origo") is an investment firm based in Stockholm with a focus on long-term, active ownership in publicly listed companies in the Nordic region. We have a long history and experience in investing in both public and private companies in the gaming industry. Through the fund Origo Quest 1, we currently hold over 550,000 shares in Cherry AB ("Cherry" or the "Company"). Origo made its initial investment in Cherry in 2013 and it's considered a significant position for the fund we manage.

<u>Cherry has historically helped entrepreneurs build successful companies</u>:

Throughout the years we have had a frequent and constructive dialogue with Cherry's management team, its Board, as well as other shareholders and we appreciate your receptiveness and the positive takeaways from those meetings. We are grateful for the hard work and creativity delivered by Cherry's employees and the entrepreneurs within Cherry's underlying subsidiaries. We also want to emphasize that we have great respect for what the previous CEO's and current Chairman, Morten Klein, have built over the past years. Cherry has a proven history of finding great entrepreneurs and nurture them to build competitive companies where all stakeholders benefit. The value creation opportunity present at Cherry today would not be possible without their leadership, risk taking, and investment decisions. Having said that, we are writing to you today to share our thoughts regarding the need for immediate action and re-focus on value creation for Cherry's shareholders.

<u>From start-up to respected industry leader – now opportunity to unlock value</u>:

We believe Cherry's current value does not reflect the strong positions many of its subsidiaries are possessing in their respective segments, nor does it reflect the fact that there exists a distinct and significant value-creation opportunity for Cherry's shareholders. According to the Company - "Cherry's *strategy is to create shareholder value by owning and developing fast-growing and profitable gaming, media and entertainment companies*". One such company is Yggdrasil Gaming Sweden AB ("Yggdrasil"), a fast-growing developer and designer of award-winning games licensed to online gaming operators.

In 2013, Cherry invested in a start-up company of less than 20 people with a clear vision and ambitious goals led by founder and former NetEnt executive, Fredrik

Elmqvist. Yggdrasil has since grown at a rapid speed with revenue CAGR of over 180% between 2014 and 2018, reaching trailing twelve-month revenues of over SEK 200m and currently employing more than 240 full-time employees. Its games have won multiple awards and Yggdrasil continues to win new customers on a constant basis. Looking back, the decision to invest into Yggdrasil has so far turned out to be a well-timed, bold, and profitable decision by Cherry.

Autonomy and simplified ownership are required for Yggdrasil to reach its next level:

Today, Yggdrasil's contribution to Cherry's overall profitability is significant. The growth-path ahead looks very promising for Yggdrasil assuming the commercial and product road-map is well executed and with the appropriate resources allocated. We argue the current size of Yggdrasil is more than enough to part ways with Cherry as the parent. An independent and stand-alone Yggdrasil would become more agile and nimble and would benefit all its stakeholders including customers, employees and shareholders. To be successful in the B2B gaming industry there is a need for technology and a workforce that can be agile and deliver the product road map, as well as manage regulatory requirements. We strongly believe Yggdrasil possesses these qualities and is no longer in need of Cherry's support the same way it was in its early start-up phase.

We argue that there is a window of opportunity for Yggdrasil to accelerate its growth. The global gaming industry is quickly changing due to regulatory changes, sector consolidation, and technological advancements. Yggdrasil has a solid position in a market where currently no player is clearly dominating the number one global position. In the fragmented B2B gaming industry, Yggdrasil has an opportunity to become the leading consolidator, but this would require better tools to operate with, such as its own "currency" i.e. Yggdrasil's own shares to pay for acquisitions and retain top-talent. Yggdrasil has the potential to be a much larger company, while maintaining its high-quality products and workforce. The opportunity window could easily be lost in two years' time if a competitor takes on the role as consolidator. Like other B2B gaming companies, there is a clear risk of losing key personnel if Yggdrasil is not 100% supported and encouraged to pursue growth opportunities including acquisitions. An extra layer of corporate decision-making - such as the relationship between Yggdrasil and Cherry today - will only hamper the speed of growth going forward. In addition, as Yggdrasil takes market share and partners with additional and larger gaming operators, we view the relationship between Cherry and its gaming operator ComeOn as a potential conflict from Yggdrasil's customers' standpoint. This leads us to highlight what concrete steps we urge the Board to immediately consider.

Yggdrasil should be separately listed and distributed to Cherry's shareholders:

We are convinced Yggdrasil has grown its operations and market presence to a critical size enough to part ways with Cherry. We estimate the fair value for Yggdrasil to be between SEK 3.5 - 4.0 billion on a debt and cash free basis if it was a stand-alone, listed company. The investor appetite for gaming companies in the Nordic region has been high in the past years with Bloomberg recently claiming that "*Stockholm wins Europe iGaming capital title as Sweden draws IPOs*". With this in mind, we request the Board to speed up the process of preparing any technical and practical details required to list Yggdrasil. In parallel, we suggest the Board to engage the appropriate advisors, including a local investment bank to initiate a listing process. We consider the action of separately listing Yggdrasil as soon as possible to be a complete no-brainer.

Self-inflicted issues have occupied management's and the Board's time and focus:

It is clear to us that in the past 12 months Cherry's focus has been preoccupied with "putting out fires" rather than focusing on its core business and driving shareholder value. Below are a few examples of where this is evident:

- Insider trading investigation of former CEO has caused damage to Cherry's reputation and has questioned the Company's corporate governance oversight.
- Insider trading investigation of two former Board members has currently left the Board with only one independent board member (others operationally involved in Cherry).
- A rigid legal and operational structure for being an "investment company" with covenants preventing flexibility which now has led Cherry to the decision to amend its bond documents.
- Cost of debt financing above market level (higher than peers of similar size and sector) requiring re-financing.
- ComeOn acquisition lacked contingency payment (earn-out) which resulted in an aggressive forecast at closing of the deal which later was not met by ComeOn (Cherry), although Cherry's purchase price was partly based on projected sales and earnings.

We view these items as very serious and damaging to the Company and its overall reputation. In addition, Cherry's investor relations efforts have been sub-par and the equity story has not been communicated effectively, making Cherry difficult to analyse among the investor community. Consequently, in our view this has resulted in a lack of institutional ownership in Cherry today, and a reason why Cherry's share price constantly is valued with a "conglomerate discount" to sector peers. When a company repeatedly fails from a corporate governance standpoint as well as CEO missteps, we ultimately hold the Board accountable. With a combined board remuneration above sector average, we simply expect more from Cherry's Board of Directors.

In closing, we personally want to thank the Board for seriously considering our thoughts. They were carefully developed, and we hope you see merit in them. As a long-term minority shareholder, we believe it's important to speak up in times of opportunity. We look forward to a continued dialogue with Cherry's management team and its Board, and we expect the Board to immediately consider putting our thoughts into action.

Sincerely,

Carl Rydin
carl.rydin@origocapital.se

Stefan Roos
stefan.roos@origocapital.se

Origo Capital AB
www.origocapital.se