

Endor AG - Case Study

Endor - the home of sim racing

Endor is a founder-managed manufacturer of motorsport simulation equipment under the Fanatec brand name from Landshut in Bavaria, a town with 70,000 inhabitants - a hidden champion straight out of the picture book. Their products, ranging from steering wheels to pedals and shifters, create an unmatched ecosystem and are known throughout the industry to be of the highest quality. The products are sold directly through Fanatec's [webshop](#).

A testament to Fanatec's leading quality and cutting-edge development is a recent announcement regarding the upcoming release of a steering wheel that is not only designed for sim racing use, but also completely compatible with (and equipped to) the 2022 BMW M4 GT3 race car. Yes, a real car! This has never been done before in the history of sim racing and has been a project Fanatec has been working on for ten years according to the CEO and Founder Thomas Jackermeier. We highly recommend the [promotion video](#) - goosebumps guaranteed!



The evolution in sim racing equipment comes at a time when a new generation of racers are also blurring the lines between sim racing and real racing. Today there are real racers that got their start in sim racing and some professional drivers spend more time in simulators than on the track. This substitution is made possible by professional grade equipment such as Fanatec's and high-tech gameplay physics, while advantages include affordability and convenience. Sim racing is, without competition, the most realistic eSport and the only one that can enable gamers to become real life professionals.



Pictured: Left - Marcel Kiefer, member of 2020 F1 Esports World Championship team Red Bull, using a Fanatec wheel, wheelbase, and pedals; Right - Williams Racing F1 driver George Russell using a Fanatec wheel and wheelbase in his home rig

Creating the underbody - building a monopoly

For the past several years Fanatec has positioned itself at the top of the sim racing equipment spectrum and commanded premium prices. The company has a near monopoly in a specific segment of the already niche

market where wheels are priced from 500-1,500 EUR. They have an absolute monopoly in high-end pedals and shifters.

The quality of Fanatec's offering keeps customers coming back as nearly 50% of sales are from returning customers and it isn't uncommon for new products to sell out within 2-3 days of being announced. The Fanatec team has done all of this by focusing on superior design and offering compatibility across platforms that their peers struggle to replicate. For example, they are the only major company whose direct drive wheelbase can work with Sony PlayStation and Microsoft Xbox products, in addition to PC.

But the fascination of Fanatec goes beyond the pure quality of the product. Next to BMW, Fanatec has locked partnerships with Porsche, McLaren, and F1 as well as NASCAR among others. Whenever you watch a sim racing competition you will see Fanatec products. If you want a wheel branded with and designed after your favorite car brand you (most of the time) will go to Fanatec.

With margins up to 70-80% on their most premium products (Podium series), Endor can achieve a very high profitability level through brand loyalty, an ecosystem offering, monopolies in certain areas, and exclusively selling direct.

Pedal to the metal - accelerating an already growing space

Prior to the COVID-19 pandemic, gaming and esports were already experiencing high growth, and Fanatec was no different, growing around 75% in 2019. In fact, gaming has been taking an increasingly large share of the entertainment industry for some time now. Gaming revenue now exceeds combined revenue from the traditional entertainment channels, movies (cinema) and music.

In addition to underlying industry growth, the racing segment within gaming was already an attractive space for high-end equipment producers thanks to certain characteristics of the racing demographic. 36% of racing players are "high-earners", which is much higher than the average for all gamers. Racing players are significantly more likely to consider computers, electronics, and gadgets as a hobby, meaning the hardware segment is even more attractive in racing specifically. Finally, racing players tend to use social media more actively than all gamers, leading to the likelihood sim racing will benefit from further network effects.

Many things changed once COVID-19 caused lockdowns around the world: people had more time at home to enjoy gaming, virtual races began airing on popular streaming platforms such as Twitch and for the first time also on TV, and professional live racers began racing virtually. This has not only expanded the target market of addressable users, but sim racing itself is garnering a new level of respect as a motorsport, not just an eSport.

As a result, interest skyrocketed during the initial lockdowns in March, causing much of Fanatec's inventory to be sold quickly and putting the company under immense operational pressure to keep up with growth. Endor coped with this sudden surge in demand, even though there were (understandably) delays in deliveries during peak periods, with measures such as speeding up hiring and upgrading internal systems.

Still gas left in the tank - what happens after COVID-19?

The frenzy has cooled off slightly in the months since the initial lockdown, but sales results and Google trends search traffic as well as other stats (such as user figures of the gaming platform Steam) show that interest has stayed at much higher levels than pre-COVID. In fact, Q3 sales were higher than Q2 sales on an absolute basis (24.6m EUR vs. 24.4m EUR), and quite a bit better when looking at year-over-year growth (154% vs. 128%).

We expect further new product releases, the delivery of the next generation of consoles (Xbox and Playstation have launched new models) and new games such as Gran Turismo 7 to continue to drive sales in the medium term. Long-term drivers are a growing target market due to the increasing adoption of sim racing and further geographic expansion. The Asian market in particular offers exceptional potential. Endor has only recently founded its own company in China and plans to start its own sales in this region in 2021.

The market for high-end sim racing equipment is still a niche within the overall gaming and racing market. Fanatec has less than 100,000 customers per year so far. To put this figure in context, some sources talk of over 700 million console gamers and over 500 million PC gamers. Total franchise sales for sim racing games exceed 500 million units, Gran Turismo alone has over 10 million users. Endor rightly sees itself as not yet having arrived in the mainstream and sees plenty of room for future (highly profitable) growth.

Endor as an investment - does it get the green flag?

Endor has grown its sales at 40% p.a. between 2014 and 2019 and the growth has further accelerated to rates >100% thanks to the COVID-19 boost. In most of these situations the equity market would price us out since investors today are very willing to assume continued high growth rates for a long time **and pay up for these**. However, Endor is very little known in the investing space, in part due its reporting only once per year (and only in German) and having no broker coverage.

Nevertheless, being a clear COVID winner, investors rushed to Endor propelling the stock to gains of over 250% in 2020. Although it can feel difficult to invest in a stock that has already gone on such a run, we find it more than reasonable (and actually quite attractive) to pay about 10x 2021est. EBIT for a company that is a market leader with a large moat and the potential to continue very high growth levels.

There are obvious concerns about what is going to happen when COVID disappears from our daily lives. However, we think that COVID has only accelerated existing trends. Sim racing in particular seems to have crossed a threshold in the last 1-2 years and is now getting more and more into the mainstream. Given the very large addressable market which we laid out above, we think that Fanatec can significantly grow even from today's high levels.

Finally, beyond sim racing there are opportunities that Endor could pursue under a separate brand in addition to Fanatec. Options could include other sports or (home) fitness equipment that are compatible with gaming. This would be a natural expansion, allowing the use of Fanatec's already existing technology and R&D capabilities and could open up huge new markets.

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